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*A Guide for  
the  
Municipal  
Auditor  
in Ontario*



Ontario

Ministry of  
Municipal  
Affairs

John Eakins, Minister



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# *Municipal Management Practices Branch*

The Municipal Management Practices Branch of the Ministry of Municipal Affairs is committed to the promotion of management excellence in municipal operations.

Your comments on this publication are encouraged. If you would like to give us your thoughts, just fill in the handy sheet at the back of the publication. It will only take you a few minutes, and will help us to design our products with your needs in mind.

Any questions or comments regarding the contents of this publication should be addressed to the area field offices listed in the bibliography, or to Mare Brown or Hugh Hasson, the publication's principal authors, at the address below.

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# *To: Municipal Auditors in Ontario*



Founded 1879

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF ONTARIO

69 Bloor Street East, Toronto, Ontario, M4W 1B3

August, 1988

To: Municipal Auditors in Ontario

The first edition of this book, published in 1970, was a significant addition to the literature of our profession in this area. Indeed, the book has been an important part of the Institute's two-day professional development seminar course, "Municipal Auditing and Accounting".

The update embodied in this edition will help to ensure that the book continues to be an important reference source for municipal auditors in Ontario. Two useful additions to the update are the inclusion of a sample engagement letter and a sample letter of representation. Practitioners should carefully consider the applicability or appropriateness of the wording in the sample letters to their own situations.

The Institute's local government accounting and auditing committee worked closely with the Ministry on the original edition of this book and over the years has continued to build on this relationship by providing assistance to the Ministry in a number of areas, including the development of the "Municipal Financial Reporting Handbook" and the annual updates to it.

We greatly value working closely with the Ministry and commend the publication, "A Guide for the Municipal Auditor in Ontario" to all chartered accountants who are currently engaged by municipal clients, or who contemplate taking on such engagements.

R.G. MCNEILL, FCA - PRESIDENT



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# *Introduction*

In some aspects the audit of a municipality parallels that of a business corporation, but there are important differences. This book describes those differences and explains why they exist. It has been written with the appointed municipal auditor in mind.

It also discusses what duties are prescribed by the Ministry of Municipal Affairs. As an auditor, you are professionally competent to decide what audit tests are necessary in various circumstances. So, except where specifically noted, your duties and responsibilities as a municipal auditor are the same as for any other audit engagement; in other words, you should follow generally accepted auditing standards.

You will find little here about the preparation of financial statements or the accounting principles applicable to municipalities. This information is in the Ministry's Municipal Financial Reporting Handbook and its supporting Interpretation Bulletin. Examples of an engagement letter and a letter of representation have been included in the Appendices. These are examples only and you should examine their applicability to your own municipal client.

As you will come to realize, the municipal accountability pattern is anything but simple; few people outside municipal government fully comprehend it. Moreover there is every prospect that complexities in municipal accounting will continue to increase in the future. There will be even more need in the coming years for a professional auditor who can provide both an independent opinion on the integrity of the system, and constructive advice for improving the financial administration of a municipality.

The ideal municipality we use as an example in this book is imaginary: it possesses all the qualities which you will consider necessary and desirable. For example, it is large enough to achieve a thoroughly efficient operation, but still is not necessarily "big". It is well administered: the appointed officials are experts in their own field and the elected representatives function well within their policy-making sphere. It has a good system of internal control. Individual responsibilities have been clearly assigned with an adequate division of duties, satisfactory accounting records and sound operating procedures.



We have limited the scope of this book to the audit of a municipal corporation. But within the responsibilities of your audit of a municipality you will be required to audit several other bodies: public utility commissions, library boards, joint boards and so on. The audit of these bodies is not covered in this book, and there are no references to the audit of school boards.

The original version of this book was initiated by Mr. Paul Hickey, F.C.A., with extensive assistance by Mr. B. F. Toney, C.A. and Mr. E. J. Reynolds, F.C.A. Auditors who provided suggestions and assistance with the original version are Mr. W. M. Brace, F.C.A. and Mr. D. W. Scully, F.C.A.

The revisions to this guide were completed by Hugh Hasson, C.G.A., Mare Brown, C.A. and Joan Taylor, M.P.A. of the Municipal Management Practices Branch, under the direction of Bryan Isaac, C.M.A. Many thanks go to the municipal auditors who provided their invaluable insight and commentary, notably Mr. James Ayres, F.C.A., Mr. Michael Collyer, F.C.A., Mr. Thomas McCauley, F.C.A. and Mr. Howard Allan, F.C.A.





# *The Ontario Municipality*

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## *The municipality as a corporate entity*

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According to the Municipal Act, “municipality means a locality the inhabitants of which are incorporated”.

Very succinct; but beyond telling us that a municipality is a geographic area made up of people, not too helpful.

The Canadian Encyclopedic Digest, which is a compendium of statute and case law, supplies a more useful definition: “A body corporate constituted by the incorporation of the inhabitants, residing within a defined area, upon whom the Legislature has, either directly or through some intermediate agency, conferred corporate status, rights and liabilities, including the right to administer through the agency of an elected council, or other governing body, such matters of local concern as are either expressly specified, or are as necessarily implied from the nature and extent of the authority conferred”.

So a municipality is a corporation. In many ways it is similar to a business entity incorporated under the Business Corporations Act: it is a legal entity which can sue and be sued, make contracts, own property and borrow money and has limited liability. Its existence and its rights and duties are separate from those of its inhabitants and the governing body – the council. The latter, as in the case of shareholders, is not liable for its debts.

Up to a point, the structure of a municipality is also like that of a business corporation. Its members elect a council to manage the corporation and to take all executive action on its behalf, just as the shareholders of a business corporation elect a board of directors to manage its affairs. The municipal council appoints officers and others to carry out its day-to-day operations, just as a board of directors appoints company officers.

We need not dwell on the parallels between business and municipal corporations – they will be obvious to you. Far more interesting and important are the differences between the two types of corporation.

For example, consider the relationship of a municipal corporation with its members – which is not fully comparable to that of a business corporation with its shareholders. Or examine the role of appointed officials; in a municipal corporation, a person can never be both an elected member of the council and an appointed official of the same municipality. And the authority of a council is restricted by statute to a greater extent than that of a board of directors.

Moreover, a business corporation sets out with the avowed goal of earning a profit. Not so the municipal corporation. A municipality is established in order to provide a range of services for its inhabitants – at the lowest possible cost to them. Service, not profit, is the purpose of the municipal corporation.

With, perhaps, the exception of the largest conglomerates, no business corporation has such a wide variety of operations as can be found in an Ontario municipal corporation. Police and fire protection, bridge- and road-building, sewage and garbage disposal, parks and recreational facilities, community planning and zoning control, libraries and preventative health care, homes for the aged and financial help for the needy – all are numbered among the responsibilities of a modern urban municipality.

As a result, municipal corporations tend to be highly complex organizations, administered by many different departments, committees and boards. Both elected representatives and appointed officials find it difficult to keep up with every facet of the operation for which they are responsible.

When you compare the operations of a municipality to those of the provincial and federal governments you will find one major difference. In a municipality there is no cabinet made up of elected members of a political party.

## **Relationship with constituents**

To understand your client's operation, you need to comprehend the relationship which exists between a municipality and its constituents: inhabitants, ratepayers and electors. This relationship is reflected in the wording of the salutation of the auditor's report.



- (a) Inhabitants are all the people who live within the geographical boundaries of a municipality. Remember, it is the inhabitants who are incorporated as a municipality.
- (b) Ratepayers are those who pay either business or property taxes to the municipal corporation. Therefore, all property owners and business tenants are ratepayers, regardless of where they reside.
- (c) Electors are those inhabitants and ratepayers who are entitled to vote at municipal elections. A person is eligible to vote who is:
  - (i) a resident or an owner or tenant of land in the municipality or the spouse of an owner or tenant;
  - (ii) a Canadian citizen; and
  - (iii) eighteen years of age, or will be by polling day.

It is important to realize that the council of a municipality is elected both to legislate and to administer the municipality on behalf of its inhabitants. Ratepayers supply the money needed to operate the municipality, but it is the electors who command the attention of the council. The elected representatives are accountable to the electorate. Your role in this accountability pattern is explained later in this book.

Part of the accountability concept involves impartiality. A municipality must treat everyone equally. Consideration for this principle underlies some of the provincial legislation affecting municipalities – such as that dealing with conflict of interest and assessment.

Grasp the importance of equal treatment in local government, and you will appreciate why many apparently cumbersome administrative procedures are required by law. The Legislature wishes to ensure that the rights of every individual are being protected. For example, all real property must be assessed and the council must levy taxes on the whole assessment each year; failure to do so would be to show favouritism to certain owners. One of the greatest causes of friction is the showing of real or imagined discrimination. Councils must act in the public interest and in good faith without partiality. Sometimes, however, a municipal council or a local board will discriminate unwittingly by suspending or changing an established policy or procedure to suit an individual. Incidentally, when you advise a municipality on methods of improving its procedures, bear in mind this question of impartiality. For example, tendering procedures must be designed to preclude any question of preferred treatment.

## **Classes of municipality**

In Ontario, there are eight distinct classes of municipality:

- Cities
- Counties
- Improvement Districts
- Regional Municipalities
- Separated Towns
- Towns
- Townships
- Villages

There are also areas designated as police villages which exist within townships. The inhabitants of the area elect three trustees who have very limited powers. A police village does not have municipal status and the trustees must obtain the approval of the township council in most matters. The township levies on the area a special police village mill rate, which cannot exceed a limit set by legislation, as well as the township mill rates. The township also controls all finances of the police village.

Present legislation prohibits the formation of new police villages and the number of those in existence is gradually diminishing through voluntary dissolution.

Historically, municipalities were classified by their size of population and their rural or urban nature. Today, however, the growth of population and the spread of urban development into previously rural areas have blurred traditional distinctions.

A more meaningful distinction between types of municipality is by tiers. A municipality is either upper tier, lower tier or single tier. The range of services which a municipality renders depends not upon its class, but in part upon its tier position. The Ministry of Municipal Affairs, at the time of writing, is conducting a study of county responsibilities and services that may lead to a reallocation of responsibilities for certain services.

## **Two-tier systems**

The whole of southern Ontario is organized into municipalities. There are no unorganized areas of land as in northern municipalities, where there are numerous geographic townships. In the traditional two-tier system in southern Ontario, the county is the upper tier and the towns, townships and villages within its borders are the lower tier. Cities and separated towns within a county are single tier.

Representation on county council varies depending on the legislative provisions adopted. A county does not levy taxes directly, but usually apportions its costs to the lower tier municipalities who raise them by levy on their taxpayers. However, some counties which have been reassessed on a county-wide basis, instead of apportioning costs, now calculate their own mill rates which the lower tiers levy on the taxpayers. Counties are responsible for the county road system and often for social services, such as welfare administration, preventative health services, and homes for the aged. Not all counties provide these services; in some counties the lower tier municipalities continue to provide them to their own inhabitants.

**UPPER TIER**

Regional Municipalities

Counties

**LOWER TIER**

Cities

Towns

Separated Towns

Villages

Townships

Improvement Districts



Metropolitan and regional municipalities, including a restructured district and county, are another form of two-tier structure. Although the number of municipalities in the regional government system is only 12.6 per cent of the total number of municipalities in Ontario, two-thirds of the population of Ontario live in municipalities within this system. The area municipalities within a regional or metropolitan municipality are the lower tier – no matter what their titles may be – and the regional or metropolitan municipality forms the upper tier. Members of regional or metropolitan councils sit either ex-officio (as in the case of county councillors) or are elected by general or direct vote in the lower tier municipalities. Regional and metropolitan municipalities do not tax directly but, like a county, apportion their costs to the lower tier municipalities. Metropolitan and regional municipalities provide far more services than do counties. Roads, social services, water treatment, sewage treatment, regional planning, police protection and long term financing are all metropolitan and regional services. Lower tier municipalities are responsible for local roads, water distribution, garbage and sewage collection, local planning and similar functions. In some cases there are departments which serve both upper and lower tier and costs are usually allocated by agreement.

### **Single tier systems**

Single tier municipalities occur throughout northern Ontario and in some localities in southern Ontario. In northern Ontario, most municipalities are separated from one another by unorganized areas; in the south, cities and separated towns outside regional or metropolitan municipalities are single tier. Single tier municipalities raise their own revenue and supply their own services; but they may (if they see fit) co-operate with neighbouring municipalities to provide services through joint boards. Examples of such co-operation are found in county or district social and family service units, suburban road commissions and so on. You should be aware of the division of responsibility for services – which depends on whether your client is a single tier, upper tier or lower tier municipality.

## SINGLE TIER

Cities

Towns

Villages

Townships

Improvement Districts

### **Improvement districts**

Among municipalities there is a unique type: the improvement district. In places where there has been sudden growth and where no basic community existed before an industry such as a mine or a pulp and paper plant moved in, an improvement district provides quick municipal organization.

A board of trustees appointed by the Province manages the municipality until the resident ratepayers want to establish a town or a township. All improvement districts are located in northern Ontario.

### **Local individuality**

From what we have said so far, you will have realized that every generalization applied to Ontario local government is capable of exception. Each municipal corporation is, to some extent, a unique entity. If local government is to operate efficiently, it must adapt itself to meet the demands of local conditions. Each municipality, therefore, practises self-government on a wide range of specified matters; each attempts to provide good government to its own peculiar area.

There are, in fact, two opposing forces at work upon the local nature of each municipality: influences tending to produce uniformity among all municipalities, and tendencies which encourage diversity.

Three major influences which induce municipal uniformity are: legislation, court decisions and the promotion of basic service standards by the Province.

Some municipalities were created by an Act of the Legislature. Most were created under the provisions of the Municipal Act, which is sometimes supplemented by private Acts applicable to a particular municipality. Some were established by an Order of the Ontario Municipal Board. Metropolitan and regional municipalities were each specifically created by a separate Act – the Municipality of Metropolitan Toronto Act, the Regional Municipality of Ottawa-Carleton Act and so on. With the exception of the special Acts and private Acts, the provisions of the Municipal Act and other general legislation apply to all municipalities alike. For this reason, court decisions which interpret general municipal laws relate to all municipalities.

The Province encourages municipalities to provide certain basic services by:

- programs which provide grants based on actual expenditure (such as grants for highways);
- capital grants for needed facilities (such as grants for constructing community centres);
- grants for the salary of certain appointed officials. These grants are made if a municipality hires a qualified official (such as a full time drainage superintendent);
- grants towards the cost of planning and implementing unusually expensive programs (such as community revitalization programs); and
- penalties for failing to maintain certain services. (For example, the Ministry of the Environment can bring a municipality before the courts if it refuses to provide for sewage treatment.)



In spite of these pressures, there is a strong tendency toward municipal individuality. The inhabitants of each municipality demand services which make it a comfortable, convenient and interesting place in which to live and work. Naturally, such local pressures vary, causing one municipality to have a different order of priorities from another. The Municipal Act and other legislation, such as the Local Improvement Act, recognize this fact, and most of the statutory requirements affecting municipalities are permissive, not mandatory. There is, moreover, a great diversity of municipal structures; no two municipalities are identical. Each municipal corporation has developed its own unique organization of committees, departments, local boards and appointed officials. Each has allocated its own internal responsibilities and authority. In fact, different municipalities give different names to the same appointed official whose title and duties appear in the Municipal Act. So whenever you find a generalization in this book, treat it with caution! Study your client's own organization and you will be able to apply to it what you learn here.

## **Relationship with the province**

In Canada, all political authority is divided between the federal and provincial governments. Municipalities are under the legislative jurisdiction of the provinces and not of the federal government simply because the Constitution Act says so. Municipalities are not sovereign governments. They derive whatever powers they have from Acts of the provincial Legislature. The province exercises a supervisory role over many aspects of local government.

From time to time, municipal corporations find this limitation of power frustrating. It may be necessary to carry out some needed local service which is not expressly permitted in the existing legislation. To avoid acting outside its powers (*ultra vires*) – in which case it risks challenge in the courts – a municipal council has to seek special legislation giving it the authority to act.

There are three facets of the relationship between the province and its municipalities: the responsibility for the provision of services for the citizens of Ontario, payment by the province for some of the services supplied by local governments, and the provincial direction and determination of municipal services.

## **Provincial and municipal services**

The Legislature decides which services will be the responsibility of the provincial government and which the responsibility of local government. There are changes from local to provincial level and vice versa almost every year.

## **Financing arrangements for local services**

Provincial revenues are widely used to defray the cost of certain municipal services. For example, the Ministry of Community and Social Services contributes to local social service departments and to homes for the aged. In all such cases, the actual service is rendered and administered by local government but the cost is paid substantially by the provincial government; in some cases the support is 100 per cent of the cost. Why does the Legislature require the province to aid municipalities in this way? Three general answers can be given;

- 1) The provincial government could provide such services itself. But they are supplied more effectively if administration is kept at the local level and priorities are decided by local elected representatives.
- 2) The full range of services demanded of local government is too costly to be provided from municipal taxation.
- 3) The tax base of a municipality is inadequate to support the standard of service expected by most residents of Ontario. There is strong desire that the general quality of life should improve throughout the province even in areas where the ability of the local inhabitants to pay for it is severely limited.

## **Provincial direction and determination**

Provincial government ministries and agencies have close and direct ties with the local administration. The directive powers of the provincial government are extensive: some are used frequently, others seldom. To take a couple of examples: the Ontario Municipal Board and the Ministry of the Environment are both actively concerned in municipal activities.

The Ontario Municipal Board is a partly administrative, partly judicial, body whose approval must be obtained by a municipality before it engages in certain activities such as incurring long-term debt. The Ministry of the Environment is responsible for improving the quality of Ontario's water supply. It therefore requires municipalities to meet certain standards in supplying fresh water and in treating sewage.

On the other hand, the Ministry of Municipal Affairs has wide directive and supervisory powers which it seldom uses. Occasionally – when, for example, a municipality’s solvency appears threatened, or its administration appears to be grossly inept – the Ministry may place a municipality under its supervision and control. Once matters have been placed on a sound footing, the administration is turned back to local control.

The extent and variety of the relationships between your municipal client and the province are complex. As you come to understand municipal finance, you will see how provincial grants are involved in paying for locally administered services. And you will become aware of the effect your professional advice can have on your client’s relationship with a provincial ministry or agency.

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## *The influence of law*

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### **The principle of ultra vires**

The legal principle of ultra vires is applied to municipal activities without exception. Put into plain English, ultra vires means that a corporation may do only those things that the statutes say it can do; it may not do anything for which it has no express or implied authority. The principle has almost passed out of use in business corporations. In the case of municipal corporations, however, the courts have insisted that ultra vires applies rigidly. As matters stand, municipalities may engage in certain specified activities only; they have no legal authority to pass by-laws in areas not assigned to them. Only to the extent allowed by statute can they interfere with the rights of an inhabitant.

By way of illustration, a municipality cannot offer special treatment or consideration in order to attract an industry. A municipality may license, regulate and tax, but only in the form and manner prescribed by an act of the Legislature.

The responsibility for making sure a municipality observes the principle of ultra vires rests primarily with council and the appointed officials. Also, the inhabitants and ratepayers, or any other interested party, may take a matter to the courts and have an offending by-law declared invalid.



In order to determine whether or not the financial statements of a municipality present fairly its financial position, you will need a basic working knowledge of the statutory authority possessed by your client. Ultra vires transactions may give rise to substantial contingent liabilities. If they are not adequately disclosed in the financial statements, your opinion may have to be qualified. You are always entitled to ask - and to receive an unequivocal reply to - the question, "What authority do you have for this transaction?"

There is a section in the Municipal Act which appears, at first glance, to bestow on a municipality the authority to do almost anything:

"Every council may pass such by-laws and make such regulations . . . in matters not specifically provided for by this Act as may be deemed expedient . . ."

However, court decisions have placed a narrow interpretation on this section. In practice, it does not extend the existing powers of a municipality.

## **Municipal powers – complexity of legislation**

The legislation authorizing municipalities to act increases with every session of the Ontario Legislature. There are many statutes which affect municipalities to some degree. In addition to the statutes, there are also countless regulations and instructions issued by provincial government ministries and agencies under the provisions of the statutes.

As a further complication, the Legislature has passed private Acts which empower a municipality to do things which other municipalities cannot do under the general legislation. These Acts are usually found in municipalities which have been faced with situations that are uncommon to most Ontario local governments.

The whole arrangement is complex and, to the uninitiated, extremely confusing. In order to have a thorough working knowledge of municipal law, it is necessary to make yourself familiar with the pertinent legislation and regulations; the bibliography at the end of this book lists some of the more general Acts of the Legislature which concern municipalities. A good general rule to follow is to look in the obvious place first. The Municipal Act, to which we have referred, is the Act governing the general conduct of municipalities. Other Acts deal with specific matters and usually their title

is a fair indication of their content. If any legislation appears obscure, your client's solicitor should be able to interpret its meaning for you and give an opinion. Staff of the Ministry of Municipal Affairs can provide information about municipal legislation and can give you information about common practices, but they do not give legal opinions.

Because the law is so important to a municipal audit, your relationship with solicitors will be more critical than in a normal business audit. On occasion, you may have reason to think that the legal opinion obtained by your client or given to you by its solicitor should be substantiated. You may want to obtain a second opinion before deciding on your reaction to a questionable situation.

Fortunately, means are available which give you easy access to statutes and regulations. You should consider having a minimum library of municipal laws in your office. The basic work is the codified Revised Statutes of Ontario (RSO). Every ten years, a team of legal experts reviews the existing legislation and compiles the Revised Statutes. But it must not be thought that having the most recent RSO at hand means that you have the up-to-date law at your fingertips; legislation is passed so frequently that even when a new RSO is issued, it is soon outdated by the annual amendments to it. The statutes passed at each session of the Legislature are published in the annual Statutes of Ontario, and there is a service which supplies a continuous up-dating to the most recent RSO - the Ontario Statute Citator. (Details on where to obtain this service are in the bibliography.) Each year, at the end of the current session of the Legislature, the Ministry issues a useful Summary of Legislation Affecting Municipalities.

In addition to the basic legal references in a municipal law library, you would be well advised to keep on hand Rogers' "Law of Canadian Municipal Corporations", which is a loose-leaf service, and to subscribe to the Ontario Gazette. (Details of these and other important references are also in the bibliography.)

## **The exercise of the council's power**

In order to be binding and valid, policy decisions of the council must be enacted as by-laws and recorded in the minutes of the council meetings. As a rule, the council acts by passing a resolution, but the Municipal Act declares that the council is to exercise its powers by by-law. Whenever the validity of a corporate action approved by resolution has been challenged in the courts, with few exceptions the judges have said that only by-laws are legal and enforceable. This is the reason why you should expect to find a by-law to support every important decision of the council. For instance there should be a by-law for every decision to borrow money from the bank, to levy the taxes, to share costs on a joint project, to begin a capital project, to adopt a budget, to hire a senior official - and to appoint you as the municipal auditor!

## **Fund accounting**

Before we leave the subject of the law's pervasive influence, a word about fund accounting. In municipal financial operations, as in the operation of most other non-profit organizations, money raised or supplied for a particular purpose cannot be used for any other purpose. Legal restrictions and contractual obligations prevent it from being diverted to any other use. Fund accounting is a technique which is used to show that money has been used or is being held for the purpose for which it was obtained.

The funds most commonly used in municipal accounting in Ontario are Capital Fund, Reserve Fund, Trust Fund and Revenue Fund.

The Capital Fund is used to account for all capital expenditure and the financing of capital expenditure. Among the sources of capital financing are long-term borrowing, money contributed by senior governments to assist with capital projects, and money raised for capital expenditure through current taxation. In addition, the Capital Fund is used to account for any money that is borrowed by a municipality on behalf of a local board (such as a public utility) which itself lacks long-term borrowing powers.

A Reserve Fund is established to account for assets which have been segregated for a specific purpose, either voluntarily or because of legal or contractual reasons. As an illustration: contractual agreements with subdivision developers under which the municipality has received money to provide for the installation of water and sewage services will give rise to Reserve Funds. Other Reserve Funds may result from a voluntary



decision of a municipal council or one of its local boards to set aside money to finance a capital project.

A Trust Fund (or an Endowment Fund) occurs in municipalities for much the same reasons as it occurs in hospitals, universities or charitable organizations.

The Revenue Fund is used to account for all revenues and resources which are not otherwise accounted for separately. Revenues which are unrestricted in use, such as the general taxation revenue of a municipality, are recorded in the Revenue Fund. In addition, some revenues which are earmarked for specific uses but which are not usually segregated and separately accounted for, may be found there. Two examples are taxes raised by a municipality on behalf of a school board, and local improvement charges which are raised only from taxpayers in a specified area of a municipality.

There is a trend in Ontario municipal financial reporting to reduce the number of funds reported separately to the public. But neither the need to maintain separate accounting records for each fund, nor the legal requirement to segregate the assets of some funds from other assets of the municipality, is eliminated.

## **The “procedure by-law”**

For our purposes, the term “procedure by-law” means the by-law or by-laws which incorporate all the policies of council – including not only the procedures for council meetings but also the whole administration of a municipality. The Ministry of Municipal Affairs has a bulletin outlining the contents of such a by-law. There should also be a policy manual which contains, as a reference, all of these policies, procedures and guidelines of council.

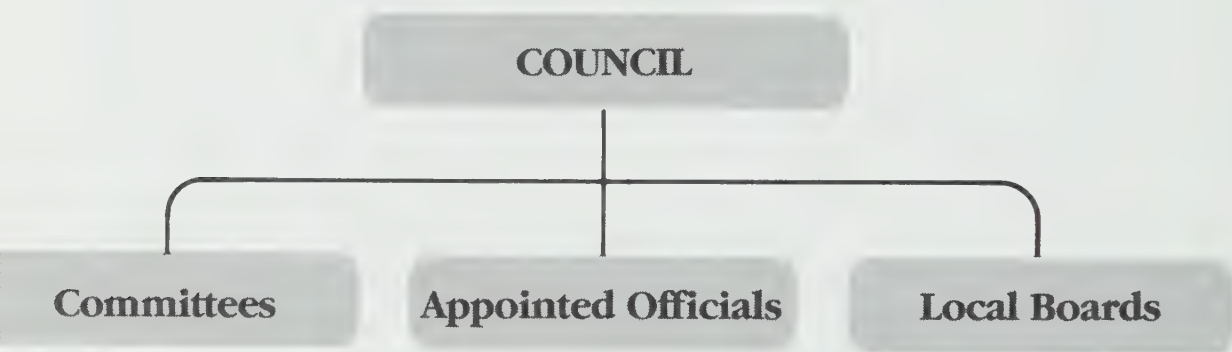
Unfortunately, the practice of having a detailed procedure by-law and policy manual is still far from universal. In many municipalities the recording of the council’s policy decisions is fragmented; seldom are the many practices and resolutions of council assembled in one by-law or indexed. However, all municipalities should have by-laws which appoint the treasurer and other officials and outline their duties. There are also by-laws outlining the responsibilities of each committee.

As a municipal auditor, you cannot ignore policies of the council; even if your client's system of internal control is adequate, you should make sure that it agrees with the policies of council. As explained below, it is only the council who has the authority to decide policy. If you find this authority is being usurped by individual officers and employees, you should report the fact to the council. It can then decide whether to change the system or to change its policy.

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*Municipal structure and accountability*

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**The council**

Properly speaking, nothing may take place in municipal operations unless the council first gives its blessing. Policy is decided only by the council; elected and appointed officials may advise and recommend certain courses of action, but the action is taken by the council. The council's authority is limited by a degree of independence granted to some local boards by the statutes.

The council of a municipality has the central position in the accountability pattern. It sets the policies; staff implement and administer them. The council establishes the accountability pattern in its procedure by-laws and other by-laws. The responsibilities and terms of reference for each committee are framed by the council. Senior officials are appointed by the council. Most local boards are established by the council and are accountable to the council for their actions.

In the provincial and federal governments the responsibility for legislation rests with the Legislature or Parliament, and the responsibility for administration rests with the Cabinet. But in local government, the council is both the legislator and the administrative executive. Naturally enough, the amount of administration in which council members will involve themselves varies with each municipality. In a small township or village, councilors normally keep a close eye on every activity; they appoint few officials. In a large city or regional government, most of the day-to-day details are delegated to the appointed officials by the by-law.

It is the council which has authority to administer activities on behalf of the municipality; individual members of the council have no legal authority to act on behalf of the council or the municipality. The head of the council – the mayor, reeve, chairperson or warden – may enjoy considerable influence and prestige, but possesses very limited statutory authority. The duty of the chief executive officer of the corporation is to see that by-laws are enforced, oversee the conduct of all subordinate officers and initiate new measures. The head of council chairs meetings of the council and has the right to sit on all its committees, but his or her vote carries no more weight than any other member's. Authority invariably rests with the council as a whole.

There has been a great deal of discussion over the question of a council member's conflict of interest. The Municipal Conflict of Interest Act, 1983, requires that any council member who has a non-arm's length interest in a matter under discussion shall declare that interest and shall refrain from discussion or voting on that matter. You may wish to refer to the appropriate legislation.

## **Committees**

Most of the detailed administrative work in which council members become involved is handled by committees. Because members of a committee become well versed in the activities for which they are responsible, they can develop positive recommendations for policy decisions more quickly. Generally, discussion is kept informal, and committee members have the opportunity to sound out local opinion before making a recommendation to the council. Incidentally, some municipal councils use the procedural device known as a committee of the whole to deal with complicated or confidential matters under discussion by the council. This device allows the entire council to dispense with formal rules of procedure in



order to expedite the business. When the matter has been resolved, the council resumes its sitting and, if necessary, takes formal action by adopting the report of the committee.

The number of committees in a municipality depends upon local needs, as does the membership of committees and the means of appointing chairpersons and selecting committee members. Standing committees of the council are usually provided for such activities as public works, finance, fire protection, and social and family services. Special committees, such as the planning advisory committee, are formed to handle one specific matter only, and sometimes include as members selected experts who are not members of the council. Standing committees generally continue during the lifetime of the council; a special committee, having a more limited purpose, usually disbands when its task has been accomplished.

Generally, committees of the council are not recognized by provincial legislation, since they are not vested with any statutory authority. Their function is restricted to that of advising or recommending. Before a committee recommendation becomes effective, it must be passed by the council in the form of a by-law or resolution. Nevertheless, in spite of the fact that they have no legal status, committees of the council can have a strong influence in local government. You will find their specific responsibilities and terms of reference in the municipality's procedure by-law together with the names of the currently appointed chairpersons and members.

## **Appointed officials**

The day-to-day details of municipal administration and advice on policy are the concern of appointed officials. There is great variety in the duties, terms of reference and titles of the officials in different municipalities because they are determined by local practice.

The Municipal Act requires a municipality to have a clerk, a treasurer, one or more tax collectors and an auditor or auditors. A chief administrative officer may be appointed to have overall control and management of the municipality. These officials are appointed by the council and, with the exception of the auditor, hold office at the pleasure of the council. The Municipal Act requires the clerk to keep the documents, books, records and accounts of the council. The treasurer is required to receive, keep and pay out all the corporation's money, and is also responsible for the preparation and publication of the financial statements of the municipality.

According to the Municipal Act the head of the council is the chief executive officer of the municipal corporation. In practice, executive duties are performed largely by the appointed officials and members of their staff, except in small municipalities.

For most of their duties, the appointed officials find their terms of reference set by the council in the by-law appointing them, or in the procedure by-law. One official may wear several hats, including those of clerk, treasurer and collector. In a few smaller municipalities, officials serve part-time only. In larger municipalities, titles may be given to officials which indicate that their function is broader than that required by statute, such as “Commissioner of Finance”, “Chief Administrator” or “Manager”. All appointed officials are accountable directly to the council for carrying out the duties assigned to them.

Although it is seldom included in the by-law, appointed officials frequently recommend policy to the council and should be encouraged to do so. They also advise the council on the full effect any of its decisions will have. Municipalities which do not have officials who are qualified in such fields as law, finance, engineering or planning often obtain advice by using the services of professional consultants. The Field Services Branch of the Ministry of Municipal Affairs is also available to assist and advise municipalities in all areas of municipal administration and finance.

## **Local boards**

The Municipal Affairs Act defines a local board as:

Any board, commission, committee, body or local authority established or exercising any power or authority under any general or special Act with respect to any of the affairs or purposes, including school purposes, of a municipality.

This all-inclusive definition takes in a great variety of local authorities. It includes boards which are obviously part of the municipality, such as a library board and a public utilities commission. It can also include community centres and suburban road commissions.

Legislation requires municipalities to establish local boards for some services, but not for all. So some municipalities provide services such as parking, water, recreation, health, and social and family services through

committees of the council; other municipalities have opted to establish a local board for these purposes. A useful dividing line between a local board and a committee is that a local board is established under authority of legislation; a committee of the council has only the authority given to it by council.

You may have difficulty in deciding whether an organization in your community is a local board of the municipality or a non-governmental institution. Many health, social and recreational services are provided by private organizations (sometimes subsidized by a grant from the municipality). Examples include hospitals, homes for the aged, day nurseries, animal shelters, skating rinks and golf courses. Children's Aid Societies are not local boards; Community Centre Boards are. The distinction is important. As the auditor of the municipality, you are automatically the auditor of all the local boards of the municipality. You must know the organizations for which you have a responsibility. Local boards also vary in their relationship to the council, to the electorate, and to provincial government ministries. The extent to which a local board is accountable to the council is determined by the statute under which it was established; there is considerable diversity from complete accountability to almost complete autonomy.

The council may appoint and dismiss the members of some boards. However, some board members may be directly elected (as in the case of public utility commissions), or appointed by the provincial government (as in the case of police commissions).

Most local boards are dependent on the council for their revenues and for capital funds. However, some boards (such as public utility commissions) generate sufficient revenue from their own operations to be self-supporting, except for major capital expenditure. Still others (such as homes for the aged) receive substantial grants direct from the province while obtaining additional revenue through the council.

Local boards may not operate their own bank accounts unless provincial legislation gives them authority to do so. Community centres and recreation commissions, for example, do not have this authority. In these cases the handling of the local board's money is the responsibility of the treasurer of the municipality. Many municipalities appoint the municipal treasurer as the treasurer of all their local boards, which makes a central accounting staff available to all the separate organizations and provides better coordination in cash flow and cash management.



Organizations which are joint boards of several municipalities possess some degree of autonomy from both the council and the electorate. Their members are appointed by the councils and their costs shared by the supporting municipalities. Generally, they are responsible for an area which, while including parts of several municipalities, is not coterminous with any of them. Community centres and fire areas are frequently managed by joint boards.

Every municipality has different types and numbers of local boards. For this reason, we cannot describe each board in detail here, nor can we detail information about the legislation establishing them. You must first determine what local boards your client has and then see how they fit into the accountability pattern of the municipality.

### **The current situation**

Each municipality was established to provide service to a particular group of people, living within a geographically defined area. The needs of that group of people were, are and will be different from the needs of any other group. Each municipality adapts itself to meet the demands of the changing situation as it attempts to improve the quality of life of its inhabitants. Since the aspirations of one group are different from those of any other group, the priorities of local government differ from municipality to municipality. There are also special interest groups within each municipality.

The urban expansion taking place in many parts of Ontario is rapid and loaded with problems. People have come to expect an ever-rising standard of living; for municipalities, that means an increase in both the number and standard of services.

As the auditor, you should be aware of the impact of these additional services on the resources of the municipality. You may be asked to provide advice in solving the problems arising from such expansion.

# *The Municipal Audit*

As in a business audit, both the law and the accounting profession require you to fulfill certain responsibilities. You may wish to refer to the Ministry of Municipal Affairs publications on *The Municipal Audit: I. Responsibility/Communication*; and *II. Other Responsibilities*. In addition, there are a number of special considerations attached to the audit of a municipality in Ontario about which you should know.

## **Your legal duties**

The principal legislation which governs your audit is the *Municipal Act*, and the *Municipal Affairs Act*. These Acts also authorize the Ministry of Municipal Affairs to prescribe the duties of municipal auditors.

The auditor of the municipality is also the auditor of every local board except school boards.

The auditor is required to make such examination as will enable the auditor to express an opinion on the financial statements.

The municipal auditor is required to report to the council, inhabitants and ratepayers. This report shall state whether in the municipal auditor's opinion, the financial statements present fairly the financial position of the corporation and the results of its operations for the period under review in accordance with accounting principles disclosed in the notes to the financial statements applied on a basis consistent with that of the preceding period, if any.

The accounting principles and standards of financial statement presentation are those set out in the *Municipal Financial Reporting Handbook* and its supporting *Interpretation Bulletin*.

Where the *Municipal Financial Reporting Handbook* (MFRH) is silent, The Canadian Institute of Chartered Accountants (CICA) Handbook applies.

The auditor is also generally responsible for making further comment in the auditor's report if:

- 1) the corporation's financial statements are not in agreement with its accounting records (CICA requirement);
- 2) the corporation's financial statements are not in accordance with the requirements prescribed by the Ministry of Municipal Affairs (MFRH requirement);

- 3) the auditor has not received all the information and explanations that the auditor has required (CICA requirement);
- 4) proper accounting records have not been kept, so far as appears from the auditor's examination (CICA requirement);
- 5) the municipality or any of its local boards has undertaken a) any capital work, the cost of which has been or is to be paid from the proceeds of a debenture issue, or b) any commitments for a period beyond the term of the present council, without the prior approval of the Ontario Municipal Board, and which has not been fully disclosed in the notes to the financial statements (MFRH requirement).

Notice that these currently prescribed duties are almost exactly the same as those required of auditors appointed under the Business Corporations Act (1982). The major difference is the requirement for the auditor to comment under condition 5. The reason for this requirement is that a municipality can find itself in serious financial and legal difficulties if it has not obtained prior OMB approval to commit itself to long-term financing beyond the life of its present council (see page 55).

So much for the duties demanded of you by – or under the authority of – the Municipal Act and the Municipal Affairs Act. Other provincial government agencies and ministries also assign duties to you from time to time. Generally speaking, these extra duties relate to grant claims made to the ministry or agency concerned. For example, in the case of grant claims for capital grants for the construction of community centres to the Ministry of Tourism and Recreation, you are required to sign an auditor's report applicable to the claim.

## **Professional obligations**

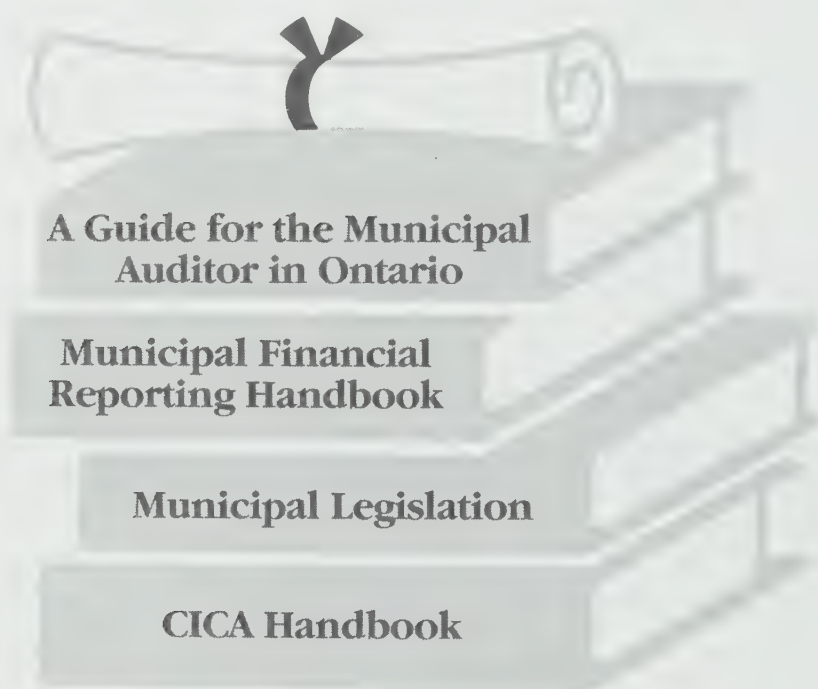
When you accept a municipal audit engagement you are stating that you have the capability of executing the assignment with professional proficiency and care. And, if you are a chartered accountant, you are obliged to comply with the professional standards and recommendations laid down by The Institute of Chartered Accountants of Ontario (ICAO), The Canadian Institute of Chartered Accountants (CICA) and The Public Accountants Council Of Ontario.



## **The client's expectations**

Your municipal client engages you as a professional auditor and expects to be charged a professional fee, but by the same token it is entitled to expect work of professional quality. For this reason it is imperative that you acquire a full working knowledge of municipal operations, municipal accounting and the various statutes and regulations concerned with local government. This body of knowledge is extensive; it will include, for example, complete familiarity with:

- the relationship that exists between provincial and municipal governments;
- the accounting principles, organization and financial practices of various local government units;
- the established duties of appointed officials and elected representatives;
- the structure and responsibilities of your client's committees and local boards;
- the procedure by-law and administrative policy decisions of the council; and
- the corporation's policy for such matters as the financing of subdivision development and capital expenditure.



If you intend to audit a municipality you must either become a specialist yourself or make sure you have a municipal specialist on your staff.

## **Auditing standards**

Generally accepted auditing standards apply to all audits, whether municipal or business. Section 5100.02 of the CICA Handbook describes these standards. The second *examination* standard requires a study and evaluation of internal controls where the auditor plans to rely on these controls. While actual techniques of evaluation vary from auditor to auditor, the basic approach is the same.

The third *reporting* standard calls for you to report whether your client's statements have been presented in accordance with an appropriate disclosed basis of accounting. Your Municipal Financial Reporting Handbook and its supporting Interpretation Bulletin contains instructions and procedures which, if followed, result in the application of municipal accounting principles acceptable to meet this requirement.

The second *reporting* standard requires you to state why you cannot express an unqualified opinion on your client's statements. This matter is one of communication and you should be unequivocal in giving reasons.

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### *Section 5100.02*

#### ***General standard***

The examination should be performed and the report prepared by a person or persons having adequate technical training and proficiency in auditing, with due care and with an objective state of mind.

#### ***Examination standards***

- (i) The work should be adequately planned and properly executed. If assistants are employed they should be properly supervised.
- (ii) There should be an appropriately organized study and evaluation of those internal controls on which the auditor subsequently relies in determining the nature, extent and timing of auditing procedures.
- (iii) Sufficient appropriate audit evidence should be obtained, by such means as inspection, observation, enquiry, confirmation, computation and analysis to afford a reasonable basis to support the content of the report.

### ***Reporting standards***

- (i) The scope of the auditor's examination should be referred to in the report.
  - (ii) The report should contain either an expression of opinion on the financial statements or an assertion that an opinion cannot be expressed. In the latter case, the reasons therefore should be stated.
  - (iii) Where an opinion is expressed, it should indicate whether the financial statements present fairly the financial position, results of operations and changes in financial position in accordance with an appropriate disclosed basis of accounting, which except in special circumstances should be generally accepted accounting principles. The report should provide adequate explanation with respect to any reservation contained in such opinion.
  - (iv) Where an opinion is expressed, the report should also indicate whether the application of the disclosed basis of accounting is consistent with that of the preceding period. Where the basis or its application is not consistent, the report should provide adequate explanation of the nature and effect of the inconsistency.
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## **Recommendations of the CICA**

### **.....on accounting principles**

As mentioned previously, where your Municipal Financial Reporting Handbook is silent on financial statement presentation, refer to the CICA Handbook and contact the Municipal Management Practices Branch of the Ministry of Municipal Affairs for guidance as to its applicability.

### **.....on auditing**

You will find that most of the *audit* recommendations of the Accounting and Auditing Research Committee in the CICA Handbook are applicable to municipalities and you should regard them as a guide to your conduct.

The CICA Handbook recommends that your report should contain a direct reference to the scope of your examination. Your standard report should cover all financial statements required for fair presentation in accordance with the appropriate accounting principles. You should indicate clearly the financial statements which are covered by your examination and opinion.



(A model form of auditor’s report is shown below. This model is an adaptation of the form suggested in the CICA Handbook.) To repeat: if you find you cannot express an unqualified opinion of the fairness of your client’s financial statements, say so without equivocation, and give your reasons for qualification clearly and precisely – as suggested by the Handbook and as required by Section 5100.02.

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*Sample Auditor’s Report*  
*Local Governments*

To the Members of Council, Inhabitants and Ratepayers of the Corporation of the \_\_\_\_\_ of \_\_\_\_\_

I have examined the consolidated balance sheet of the Corporation of the \_\_\_\_\_ of \_\_\_\_\_ as at December 31, 19 \_\_\_\_ and the consolidated statement of operations for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these consolidated financial statements present fairly the financial position of the (city, village, etc.) as at December 31, 19 \_\_\_\_ and the results of its operations for the year then ended in accordance with the accounting principles disclosed in note 1 to the financial statements applied on a basis consistent with that of the preceding year.

(signed) \_\_\_\_\_  
Chartered Accountant

City

Date

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## *Features of the municipal audit*

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### **Accounting principles and financial statement presentation**

The accounting principles “disclosed in Note 1” are contained in the Municipal Financial Reporting Handbook and differ in some respects from generally accepted accounting principles for commercial enterprises.

The minimum disclosure requirements for financial statement presentation to be used by all municipalities in Ontario are established by the Ministry of Municipal Affairs and are also contained in the Municipal Financial Reporting Handbook. The Ministry works closely with committees of The Institute of Chartered Accountants of Ontario, the Urban Finance Officers Association and the Association of Municipal Clerks and Treasurers of Ontario, as well as consulting individual municipal treasurers and auditors. In this way, there is an ongoing revision aimed at constantly improving the reporting standards for municipalities and the usefulness of the prescribed financial statements.

### **The auditor’s report**

The Ministry does not by itself prescribe the form your report should take. However, in cooperation with the ICAO we agreed that the form on page 27 meets all professional requirements when an unqualified opinion is to be expressed on the consolidated financial statements of the municipality.

During the course of your audit of a municipality, you may be required to report on some of the financial statements of local boards and trust funds as well as on the consolidated financial statements of the municipality itself. Generally, if the local board is consolidated, then separate audited financial statements are not required unless there is specific legislation to the contrary. (See the following section under reporting responsibilities.) However, if the local board’s financial statements include a separate auditor’s report, the reports will follow the same format, but with a different addressee. There are three sample auditor’s reports included in the Municipal Financial Reporting Handbook.

The salutation in the suggested form is suitable for your report on the complete package of the consolidated financial statements of the municipality and those local boards which are to be consolidated in your client's annual audited financial statements. But each local board has a different position in the overall accountability pattern of the municipality; and when you report on the financial statements of a local board, you will need to select the appropriate salutation.

With regard to any supporting schedules, you must bear in mind that users of the information they contain – your client, the provincial government, bond dealers and other people interested in local government finance – expect it to be reliable. Where schedules are cross-referenced to the main statements, these must be audited as well.

You could, of course, ascertain the reasonableness of these schedules where you study and evaluate internal control.

## **Reporting responsibilities/representations**

There are three basic kinds of reporting that municipalities are responsible for, not unlike the commercial sector:

- the annual audited Financial Statements:  
Reporting to council, the inhabitants and ratepayers corresponds to reporting to the board of directors and the shareholders;
- the annual Financial Information Return:  
Reporting to the Ministry corresponds to reporting to Statistics Canada or Revenue Canada;
- internal Management Reports:  
Reporting to council corresponds to the detailed and frequent internal management reports required for managing the operations of a corporation.

## **Accountability and the annual financial report**

We have already mentioned your primary reporting responsibility – that is, to report to the council, inhabitants and ratepayers. It is the council who appoints you on behalf of the inhabitants and ratepayers. The financial statements included in the Financial Report are prepared on the basis of accountability and contain the auditor's report and the consolidated financial statements of the municipal corporation. In addition, the Financial



Report should contain auditors' reports and financial statements for other entities, such as separately elected public utilities commissions, and separate financial statements for local boards as required by legislation, for example, library boards and Business Improvement Areas. In addition to your auditor's report(s) in the Financial Report, you have a responsibility to your client with respect to its Financial Information Return.

## **The Financial Information Return**

The Ministry is responsible for monitoring the financial health of municipalities. Because of this function and because of the amount of provincial funds transferred to municipalities, the Ministry requires additional statistical information for each municipality. This is the basis for the Financial Information Return (known as the FIR). The FIR provides more detail and also includes information on each separate fund. Because of the amount of detail, you are only required to provide an "accountant's comments" report on the information indicating specific procedures performed. This should not be confused with the standards required for your "accountant's comments" in commercial enterprises. Two schedules, Schedules 13 and 14, do require an auditor's report. This is because the information is used for provincial grant calculations. These reports are addressed to the Ministry. Suggested wording has been provided through The Institute of Chartered Accountants of Ontario.

Because the FIR is an information tool, the consolidation principles are not the same as for the annual financial statements. There is, however, a separate extensive set of instructions issued each year which accompanies the return.

You may also be interested to know that the information from all of these FIRs, as well as information from other current and budgetary documents, is collected in the MARS system (Municipal Analysis and Retrieval System). MARS is the Ministry's database containing financial, household, population and assessment information for all of Ontario's municipalities as far back as 1977. This information is available to all.

MARS is used regularly by municipalities, municipal auditors, the investment community, bond-rating agencies, the Ontario Municipal Board and others. With its ability to perform inter-year and inter-municipal comparisons in a report format to suit the client, MARS has proven to be an invaluable tool for financial analysis.

Requests for information can be made through the Field Services Branch or the Municipal Information and Technology Branch of the Ministry of Municipal Affairs.

The Field Services Branch is responsible for the monitoring of the financial health of the municipalities and the provision of advice. The Branch field offices also make use of the FIR, FR, and the annual audit questionnaire. A sample of this questionnaire is provided in Appendix D. You will find the field offices an invaluable and willing source of information. A list of field office locations is included in the Bibliography.

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## *The auditor*

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### **Appointment, dismissal, powers and rights**

Your appointment is made when the council of a municipality passes a by-law to that effect. The Municipal Act guarantees your office “during good behaviour”. When you are appointed the auditor of a municipality, you automatically become the auditor of all that municipality’s local boards. At the same time, you become the auditor of any joint board if your client is liable for a larger portion of the operating costs than any other municipality or if your client is designated as the reporting municipality.

It is always a good idea to have an engagement letter, but with municipal clients it is particularly useful, since it is a good place to include a list of all the local boards and joint local boards for which you will be responsible. The engagement letter is your agreement with your client on each other’s duties and responsibilities in performing the audit. Usually it is up to you to prepare the engagement letter and get the municipality’s agreement. Remember, the by-law appointing you is only confirmation of the appointment and is not a substitute for the engagement letter.

You should prepare the letter as soon as you are appointed to avoid later misunderstandings. It should, as a minimum, be reviewed and updated annually. By clarifying responsibilities and functions, you can save time during the audit and avoid duplication of effort and unnecessary delays in completing the year-end financial statements. An example is included in Appendix B.

You cannot be dismissed except for cause. Your appointment is of a quasi-permanent nature; the council – should it decide it has a proper reason to dismiss you – must pass a by-law. You must be notified of the meeting at which your dismissal is to be discussed, and you are entitled to attend this meeting and be heard on the subject. “Cause” is not defined by the law, and for that reason is subject to various interpretations. If, after private discussion with you, your client still decides to change its auditor, you will probably accept the decision and cooperate with your successor. In particular, your responsibility is to protect the rights of the inhabitants of a municipality, just as in a business corporation appointment your responsibility is to the shareholders.

You have extensive powers as a municipal auditor. The Municipal Act guarantees you the right

- to demand to see any documents of the municipality at any reasonable hour;
- to require any member of council or appointed official of the municipality to provide you with any information or explanation you need;
- to be notified of, and to attend, any meeting of the council, and to be heard on any part of the business of the meeting that concerns you as auditor; and
- to require any person to give evidence on oath.

### **Traditional role**

Traditionally it has been a responsibility of auditors at all levels of government to ensure that

- money was not spent for illegal purposes;
- regulations for uniform accounting and financial procedures were observed;
- accounts were kept correctly and honestly; and
- the budget was observed and spending kept within its limits.

Municipal auditors are expected to perform at least a part of this traditional role. Today, however, in a well-administered municipality, the likelihood of technical irregularities is minimized by an adequate system of internal control. You may decide to evaluate internal control as the basis for your audit; however, there are other techniques which may prove to be more cost effective.



Appointed officials, acting within their terms of reference established by the council, are responsible for administering your client's affairs in accordance with the relevant legal requirements. You will likely, however, want to get a "letter of representation" to provide written evidence that you have made certain inquiries of management. An example is provided in Appendix C. It is important to recognize that this letter in no way reduces your responsibility to discover or verify the matters referred to in the representation. Refusal to sign the letter could be taken as a signal of withheld evidence or misunderstood responsibilities; either may destroy the basis for an unqualified opinion.

Some examples of issues covered in the letter of representation are:

- that appropriate statutory requirements have been complied with;
- that where inventory has been reported, this inventory has been correctly determined and accounted for;
- that current assets will realize the values attributed to them; and
- all liabilities are provided for or otherwise disclosed.

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## *Meeting the requirements of the Ministry*

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### **Licences**

While your appointment is a matter between you and your client, you must have a municipal auditor's licence as prescribed by the Ministry of Municipal Affairs.

### **Filing requirements**

It is your client's responsibility to file a copy of its annual audited financial statements with the Ministry of Municipal Affairs by April 30 of the following year. These financial statements include the annual audited consolidated financial statements of the municipality, as well as financial statements for trust funds, unconsolidated local boards and any consolidated local boards which require a separate auditor's opinion. You may wish to provide this service on behalf of your client.

The annual Financial Information Return is also due by April 30 of the following year.

The Ministry of Municipal Affairs is responsible for monitoring the financial health of a municipality. The annual audit questionnaire provides information to assist in this responsibility. You should also report any other matters, such as defalcations and irregularities to the Ministry. You may wish to supplement the information on the questionnaire with copies of any management letters.

## **Publication or distribution of financial statements**

The Municipal Act requires that the treasurer publish material for the information of the ratepayers. This information is described in the publication entitled “Financial Disclosure to the Public – A Code for Municipalities in Ontario 1984”. A copy of this guide is included at the back of your Municipal Financial Reporting Handbook. Although your client has discretion in the design and level of sophistication of this information, the guide does give minimum disclosure requirements.

## **Materiality considerations**

In a municipal audit materiality is seen to be especially important because public funds are involved. Material errors, omissions or discrepancies can have a critical effect on the funding required to provide municipal services and amenities. They directly affect property taxes, credit ratings, grant eligibility and potential growth through land development for residential, commercial and industrial use.

In your report you assure readers that the audited annual financial statements present fairly the financial position and operations of the municipality. The implication is that they are also free from material errors.

There are no set guidelines for determining materiality; it is a judgment decision based on professional knowledge and expertise. However, you should plan the audit bearing in mind the nature of municipal entities, the reporting intent of the financial statements, and the unique problems associated with determining materiality in a municipal audit. The materiality level will differ between the consolidated statement of the municipality and separate audited statements prepared for local boards.

You must be familiar with the financial reporting and disclosure requirements of municipalities. Knowledge of the principal statutes and regulations governing the powers of municipalities and their local boards is also essential.

## **Dealing with defalcation, control weaknesses and material illegalities**

The general public – including the inhabitants of your client municipality – is greatly concerned about the misappropriation of public funds. Whatever may be your true obligations, most laymen persist in looking upon the municipal auditor as their main safeguard against fraud; if it exists they expect you to uncover it! Of course, your prime function is not that of discovering embezzlement. This “expectation gap” was the subject of a study commissioned by the CICA resulting in the Report of the Commission to Study the Public’s Expectations of Audits published in June 1988. The report makes recommendations which are also applicable to local government auditing.

When you discover control weaknesses during your audit, your reaction will depend upon your judgment of their importance. You should not hesitate to report all control weaknesses, together with your recommendations for improvements, to the appropriate level of management in the municipality. You will probably decide to deal with the treasurer or with other appointed officials in routine matters. However, more important problems should be dealt with in a report addressed to the council. This report is often called the management letter.

Even in the best administered municipalities, mistakes and illegalities can occur. If your client has engaged in activities or entered into contracts which are beyond its legal powers, it may expose itself to contingent liabilities. You must decide whether or not these liabilities are material. You can ask your client to seek the advice of its solicitor in determining its authority for its actions, and you should feel free to seek separate legal advice if there is any uncertainty in your mind. But in the final analysis, the decision on materiality is your own. You may find Materiality in Auditing (a CICA publication) a useful guide. If a material contingent liability exists, it is reflected in the Notes to the Financial Statements; if it is not, you should disclose it in a qualification of your report.

While many of the problems mentioned above are of a routine nature, there will be occasions where fraud, control weaknesses, illegalities or abuse of office affect your opinion on the fairness of a municipality’s financial statements. In such instances, you must report the facts to the inhabitants and ratepayers of the municipality. Staff of the Ministry of Municipal Affairs are available to discuss the matter with you and they may be able to help you decide how to proceed.



## **Providing special services**

If you restrict your services to what is legally and professionally necessary, you can still do an excellent job. But if you accept the challenge available to a municipal auditor, you will have many opportunities to provide your client with service beyond your normal audit function. You should make sure, however, when doing so, that you remain independent. For example, the Municipal Act specifically disqualifies auditors who are members of council or any local board of a municipality for which they have the audit responsibility. Any possibilities of conflict of interest must also be considered; the perception of independence is as important as the fact.

One of the most frequent opportunities you may have for rendering special services is in helping your client expand its accounting or information system to cope with demands of growth and change. Few municipalities have adequate staff resources to keep up to date with modern business methods, particularly with today's rapidly changing computer technology. You are probably the professional advisor who is best able to help your client improve its accounting and information systems. Indeed, you may be selected as municipal auditor on the basis of your knowledge of finance and accounting and on your consequent ability to contribute to the improvement of your client's operation.

Another service you can offer is your assistance in preparing both the current and long-term budgets. The setting of expenditure priorities and financing policies is a responsibility of the council; but the task of putting together a package of budget information is one which may challenge the most proficient municipal treasurer. You might well make an informed review of the budget to help ensure that the information in it will enable members of council to grasp clearly the effect of new projects, rising costs or changes in the provincial government grants.

If your municipal client is considering the benefits and costs of amalgamating into a larger unit or possibly annexation, a vast amount of financial information is required for effective analysis of the impact. Here you can render an invaluable service in helping your client make a worthwhile study of its future organization.

Your client may wish you to help in the upgrading of treasury personnel. As knowledge grows increasingly specialized, it is becoming impossible for a personnel officer to interview and hire without the advice of an expert. Your opinions will be valuable in setting policies for staff selection and training.

But perhaps the service you are best equipped to offer is that of introducing improved business methods. Someone with your combined knowledge of your client's problems and your general business experience can help find ways of increasing municipal administrative efficiency. As a part of your regular audit you will advise your client of any weaknesses you have observed in its system of internal control. You can also use the management letter as an important service, since your findings can be as important a feature of the audit as is your opinion on the financial statements.

It is important to put things into perspective. Your management letter might well be divided into two sections: major items for consideration by council and minor items suggested to the treasurer. Needless to say, all items in the letter should be discussed with the treasurer first. It is a good idea to include the treasurer's response in the letter as well.

When you go further and offer your advice on methods of improvement, you provide an invaluable service because you will stimulate an increased awareness of possible improvements in operational efficiency. Your independence and objectivity is not only the cornerstone on which the requirement for an external audit is based, but provides you with a fresh view of the organization.

You should have a clear understanding with your client on the services you provide in addition to your regular audit. The by-law which appointed you should be supplemented by an engagement letter(s) covering the extent and fee for any special services which are additional to your audit, such as accounting services. You can also avoid misunderstandings if you distinguish between your audit and your special services by billing each separately.

One final word. Elected representatives and appointed officials are, with rare exceptions, dedicated servants of the public, striving to improve the quality of the environment within their municipality as effectively as possible. Local government is complex, urban communities are expanding rapidly, and their inhabitants are demanding an increasing level of service. Municipal staff are also becoming better trained and more sophisticated in financial management, which means that your role is constantly evolving too. You have the opportunity of sharing in meeting the needs of the future: not only in challenging professional work but also in contributing to the improvement of the quality of government in your client municipality.

# Revenue

Municipal revenue is reported under three headings:

- taxation and user charges;
- contributions from other governments; and
- other revenue.

These headings and their respective accounting treatments are explained in your Municipal Financial Reporting Handbook, which forms a useful background to this chapter. As explained on page 25, it is expected that you will use some form of evaluation as a basis for your audit.

## Basic elements of internal control

The systems for controlling municipal revenues and cash receipts differ from one municipality to another. They range from cash to accrual accounting and from hand-written receipts to complex computer operations; the level of sophistication depends upon local circumstances. However, the systems are, in essence, the same as you find in a business corporation. You can evaluate your client's internal control only after you have made a detailed investigation of its systems.

Before you begin your audit, look through the by-laws and identify the policies fundamental to the revenue systems. Included in these policies are the delegation of responsibilities for billing and collecting revenues, agreements with other municipalities, and fees charged for municipal services.

Tax billing and collection policies – including the use of interim tax bills, dates of tax instalments, rates of penalties and interest on tax arrears, and authority to use tax sale procedures – must be approved by a council by-law.

The council sets (or delegates its authority to set) licence and parking meter fees, charges for the use of municipal facilities (such as arenas and golf courses) and rates to be charged for municipal services. If the council has entered into a joint agreement with another municipality, the details are in the by-law ratifying the agreement.

The treasurer – the appointed official responsible for the control of municipal revenues – has a statutory duty “to receive and safely keep all the money of the corporation”. Usually the council assigns other, far more extensive, duties.



They include:

- developing an accounting system to control municipal revenues;
- compiling the municipal estimates;
- preparing the revenue budget;
- advising the council on optional methods of raising revenues;
- maximizing miscellaneous revenues such as short-term interest;  
and
- centralizing the accounting for the revenues of local boards to increase control.

When you review internal control over municipal revenues you should remember that almost all major defalcations in municipalities have involved misappropriation of funds.

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## *Taxation revenue*

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### **Upper tier municipalities**

Counties and other upper tier municipalities do not tax directly but apportion their revenue requirements over their supporting municipalities. However, as explained on page 5, some counties now calculate their own mill rates.

In an attempt to provide some consistency, the Ontario government developed “equalization factors” to convert local assessment figures to a more standard base. These factors are used in the determination of provincial transfers and the calculation of county and regional apportionments – that is, the distribution of county and regional financial requirements among the supporting lower-tier municipalities. However, local taxable assessment is still used for tax levying.

The Municipal Finance Branch of the Ministry of Municipal Affairs is responsible for developing the apportionment policies, while the Field Services Branch performs the actual calculations. These calculations are then sent to the Subsidies Branch for data entry and the issuance of the actual cheques.

Staff of the Ministry of Municipal Affairs are available to tell you about the methods used by upper tier municipalities for apportioning costs.

## **Lower tier municipalities**

Taxation is the major source of revenue under the direct control of the municipal council, and it is primarily the municipality's ability to raise future taxes that determines its financial strength. The system used for raising taxes is unlike any method of revenue-raising used by business corporations. The background to municipal taxation is discussed in The Report of the Ontario Committee on Taxation (Smith Report) which explains why the system has evolved to its present complex form.

Although the report was published in 1967, it is still a valid reference on local government taxation in Ontario.

## **The assessment roll**

The roll which determines the basis of the allocation of taxes is prepared by the Assessment Services Division of the Ministry of Revenue. The assessment commissioner who prepares the assessment roll delivers it, together with his affidavit attesting to its accuracy, to the municipality by the third Tuesday following December 1 of the year preceding taxation, unless the Minister approves its late delivery. Changes in the roll are not permitted, except as provided by statute. Once the roll has been delivered, all changes entered in it are the responsibility of the municipal clerk – although changes are made by the assessment commissioner in his or her records. An assessment may be appealed by any person, including municipalities and school boards. The appeal system is described in detail in Appendix A. It permits appeals to the Assessment Review Board and thereafter to the Ontario Municipal Board. The decision of the OMB is final and cannot be appealed except on a question of law.

The basis for calculating mill rates is the assessment roll corrected and revised by the Assessment Review Board and certified by the regional registrar of the court. However, the municipal council may calculate the mill rates using the assessment roll as returned. The municipality reviews the assessment roll for errors before using it. Examples of tests that are often conducted are:

- comparison of building permits and water connections to the supplementary assessment rolls in order to ensure new properties are assessed upon completion;

- review of the previous year's supplementary assessment rolls to ensure that all the properties entered therein have been correctly entered on the new assessment roll;
- check of properties for incorrect classification – especially tax exempt properties – to prevent unnecessary loss of revenue to the municipality;
- comparisons of assessment totals to previous years to test for any obvious errors;
- comparison of the ratio of assessment to population with that of previous years to verify reasonableness of the roll;
- review of assessments for possible appeals to the Assessment Review Court; and
- comparison of properties on a map to the assessment roll to check omissions. (This type of test can be very difficult to conduct in a rural municipality.)

Errors in the assessment roll can result in a loss of taxes from missed assessment; they can also result in a misallocation of the municipal taxation burden. The only way a municipality can ensure equity is to review the assessment roll thoroughly.

## **Mill rates**

A municipality calculates mill rates by using this formula:

total taxation revenue required times 1000 divided by the sum of 100 per cent of taxable commercial and industrial assessment and 85 per cent of taxable residential and farm assessment.

The resulting mill rates are then used as a factor which is applied to the assessed value of each taxable property in order to calculate the amount of tax payable. Mill rates for residential and farm, commercial, business and special area rates must be approved by the council in a tax rate by-law.

Residential and farm assessments are taxed at a mill rate 15 per cent lower than that for commercial and industrial property.



Business tax is calculated by applying the commercial mill rate to the assessed value of the real property used for business purposes, as laid down in the Assessment Act. Rules for calculating the special taxes on transportation and pipeline companies are also set out in that Act. Taxes on telephone and telegraph companies are dealt with in the Municipal Act. Business taxes are a charge against the owners of the business and not against the owner of the building in which the business operates. Therefore, in collecting unpaid business taxes, a municipality has the right to seize the chattels of the business in default, but not the real property.

The ratepayers in one portion of a municipality often request a special service which is not provided to all ratepayers. The council can then tax those ratepayers to pay for the special service. (Rules covering the expenditure of these special area mill rates are on page 52.)

### **The collector's roll**

The collector's roll takes many different physical forms, such as ledgers, copies of tax bills and accounting machine print-outs; it is compiled by extending the individual assessments in the final assessment roll by the mill rates and then adding the special charges. The collector's roll records against each property and business all taxes – plus other amounts added to the tax bills – for the year. Uncollected charges from prior years are not included. It is imperative that municipal officials ensure that all changes made to the assessment roll are reflected in the collector's roll.

### **Preparation of tax bills**

The council establishes the dates when taxes are due. There is no statutory limit to the possible number of tax instalments, and taxes of up to 50 per cent of the previous year's mill rates for residential public school supporters may be raised on an interim levy before the current annual revenue estimate is set. The council may also decide on a minimum tax bill of at least ten dollars for each property. Sometimes special charges, which are not calculated from mill rates, are billed to some taxpayers. Some of these special charges (such as local improvement and drainage charges) create accounting problems because a project results in a different charge for each property affected; your client's accounting system must be adequate enough to allocate each charge correctly. Other charges (such as hydro arrears, which do not represent taxation) can be added to the tax bill for collection.

## **Supplementary taxes**

Whenever new assessment is added during the taxation year – either from the correction of an omission from the roll or from new construction – supplementary taxes arise. The rules for raising taxes on these additional properties are defined in the Assessment Act. The law requires that supplementary taxes from new construction be distributed on a pro rata basis to school boards, counties and regional governments. The amount of supplementary taxation from new construction is affected by the date when the provincial assessor adds it to the assessment roll; additions to the roll are taxed according to the portion of the year they are on the roll. Therefore a delay in assessing results in a loss of revenue to the municipality.

## **Collection of taxes**

A municipality charges penalties and interest on overdue taxes in order to encourage prompt payment. Penalties are charged for tardy payment of taxes in the year they become due, while interest is charged on arrears remaining after that year. The interest cannot be compounded. The council passes a by-law stating the rates to be charged within upper and lower limits set out in the Municipal Act or the Municipal Interest and Discount Rates Act.

An adequate system of control is developed by the municipality to ensure that applicable penalties and interest are always charged and paid. In this way, a loss of revenue to the municipality is prevented.

A municipal corporation may act through the division court and use bailiffs to obtain payment of taxes, as soon as they become due. It also has final recourse to special procedures to enable it to collect overdue property taxes by tax registration under the provisions of the Municipal Tax Sales Act, 1984. The Ministry of Municipal Affairs issued a Treasurer's Guide to this Act in 1986 which sets out the steps and procedures for tax registration. In some cases a county or other upper tier government, by agreement with a local municipality, takes responsibility for the administration of the Act as well as the collection of all tax arrears.

## **Contributions from other governments**

The major sources of contributions from other governments fall under three headings:

- payments in lieu of taxes;
- grants; and
- payments from other municipalities.

## **Payments in lieu of taxes**

The accounting controls over payments in lieu of taxes are usually straightforward.

Properties subject to payments in lieu of taxes are shown as tax exempt on the assessment roll. Some bodies do not pay the equivalent of full mill rates. For example, the Ontario government does not usually pay school rates on properties which it owns and occupies. The municipal records and the appropriate legislation will show the applicable rates and the ministry responsible for payments.

The Subsidies Branch of the Ministry of Municipal Affairs makes the payments in lieu on most of the provincial properties. It automatically pays 50 per cent of the previous year's amount in early April and makes the final payment after receipt of the municipality's levy by-law. Some provincial agencies, such as Ontario Hydro, are billed directly and make their own payments.

The federal government does not make payments unless an application is made each year. Generally, the Department of Public Works handles most applications, but some Crown agencies and corporations are billed directly.

## **Grants**

Grants from the provincial government are a complex and changing form of municipal revenue that is difficult to audit. Background details on most of the important programs, such as road, and health and welfare grants, are readily available.

There are two main sources of information about provincial grant programs: an annual publication, *Provincial Assistance to Municipalities*, Boards and Commissions, and the information offices of provincial government ministries and agencies.



## **Payments from other municipalities**

The Municipal Act authorizes a municipality to enter into an agreement with another municipality for a joint project for any purpose within the jurisdiction of the councils concerned. The resulting joint venture may result in payments being made between municipalities. Details of such agreements are included in the appropriate municipal by-law. You should also review the rules about netting income with expenditure stated in your Municipal Financial Reporting Handbook before you decide on the proper accounting treatment.

## **Other revenue**

The Financial Information Return outlines the chief sources of other revenue.

## **The revenue audit**

Adaptations of normal audit procedures are only suggested in this section; always use the procedure you feel is most appropriate to the circumstances.

## **General**

When you begin to review your client's revenue system you should obtain a copy of its budget. It provides details of all major sources of revenue; it also lets you know how much revenue is expected. At the year end, variations between the budgeted and actual figures may indicate that further investigation is required. The budget figures used should be the original budget approved by council.

## **Taxation revenue**

You should review the taxation revenue of the municipality by considering the taxable assessment, the annual estimates and the effect of statutory provisions (such as the provisions in the legislation for allocating payments in lieu of taxes and telephone and telegraph company receipts).

The law requires your client to levy all supplementary taxes provided for by statute, including:

- taxes on new construction which has been assessed since the return of the assessment roll on which the year's original tax levy was calculated; and
- taxes which should have been included in the original tax levy, or in prior years' taxation, but were excluded because of errors or omissions in the roll.

Your interest in the accuracy of the assessment roll is crucial because it has a bearing on whether the taxation revenue for the year is fairly reflected in the financial statements. But you need not concern yourself with the valuations in the assessment roll; they are the responsibility of the assessment commissioner and are subject to appeal procedures (Appendix A).

Nevertheless, you should be concerned about whether or not your client has an adequate system for the review of the assessment roll to ensure that

- any properties omitted from the assessment roll are billed for the correct amount of supplementary taxes; and
- any new construction (which was not included in the assessment roll from which the original tax levy was calculated) is billed for the correct amount of supplementary taxes.

When you audit an upper tier municipality you have no direct involvement with assessments and collectors' rolls. However, you have a responsibility to assure yourself that the method of apportioning the annual estimates over the supporting municipalities is in accordance with the law. An error in apportionment might result in a material misallocation of the tax burden.

You may find the procedures outlined in the CICA audit study Confirmation of Accounts Receivable are a useful guide when you plan your tests of taxes receivable. Both the CICA audit study and the CICA Handbook suggest that when internal control is not effective, confirmation should be made at or near the year end.

## **Contributions from other governments**

You can confirm the amounts paid to the municipality during the year by contacting the appropriate government ministry or agency, or the other municipality, which made the payment. Alternative procedures such as those outlined in the CICA audit study should be used together with any other tests you consider necessary in the circumstances.

You should examine the grant claim and the paying agency's reaction to it: was the claim allowed, denied, or only partially allowed? Comparing these forms with month-end or year-end statements will indicate the reliability of the municipality's year-end accrual.

Details of payments in lieu of taxes and joint municipal agreements are available in the treasurer's or clerk's office.

## **Other revenue**

The schedule of fees for municipal services, licences and so on can be traced from by-laws approved by the council. You may find it helpful to prepare a list of these by-laws and update it by looking through the minutes of council to compare the sources of revenues from year to year. You can also see if there are any new sources of revenue which the municipality has developed.

Wherever necessary, you should press for improvements in control over other revenue. Your influence may result in improvements to the accounting system that will make it unnecessary for you to qualify your report year after year, as often happens for community centres. You are engaged to make a report on whatever you deem necessary. You should not accept the excuse of poor control to avoid this responsibility, but you should continue to impress upon the council the need for improvements until it acts.



# *Expenditure*

As explained on page 25, your audit depends upon tests of procedures to determine the reliability of the system of internal control, in other words, how you evaluate your client's system of internal control depends on the audit practice you normally follow.

The nature of the municipal structure increases the complexity of your audit of municipal expenditures. As we have explained, each municipality has developed a structure to meet its own local needs; your client has developed the systems and sub-systems necessary to meet its particular expenditure requirements. Usually, the power to purchase and receive has been left to each department. The requisitioning and receiving functions will remain decentralized, even in municipalities which have central purchasing departments. In your review of the municipality, you will have to become familiar with most of the systems in your client's departments.

The systems you are evaluating during the expenditure audit will also be used – with only slight modifications – to process payments for capital expenditures. Your capital audit is therefore partially dependent upon your evaluation of the expenditure system.

The reporting requirements of the Ministry of Municipal Affairs are set out in the Municipal Financial Reporting Handbook, which provides useful background reading to this chapter.

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## *Basic elements of internal control*

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### **Introduction**

Policy and procedures are dictated by local circumstances, therefore, there are differences in systems of internal control between municipalities. However, similarities exist between municipalities in their organizational patterns and financial reporting requirements.

### **Policies and procedures**

Policy decisions involving the expenditure system are made by the council in its procedure by-law (see page 15). Matters of policy which you should find in a procedure by-law include:

- the assignment of responsibilities for the control of expenditures;
- personnel policies; and
- policies for purchasing and tendering.

Appointed officials establish procedures for purchasing, payment of accounts, preparation of annual estimates, payroll compilation, control of inventories, and the preparation and distribution of financial reports.

The standard method used for controlling municipal expenditures is for the council to allocate responsibilities to various levels of management and then to exercise control by requiring adherence to the expenditure budget.

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## *Allocation of responsibility*

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### **The council**

The council concentrates its energy on overall control. It defines the type of large or unusual expenditure that requires its explicit approval; the remaining transactions are handled by appointed officials with the council using information from the budgets and the financial reporting system to manage the municipality's affairs. The council takes little direct part in purchasing procedures, although there may be exceptions in small municipalities.

### **Committees**

Committees exercise a strong influence on expenditure. If control has been delegated to committees their responsibilities are defined clearly by the council (see page 17).

### **Department heads**

The appointed head of each department usually provides direct control over that department's expenditure. Except where purchasing is centralized, each department is responsible for its own requisitioning, purchasing, warehousing and approval for payment. The council maintains control over departments by requiring justification of each program before allotting budgeted funds. Department heads control expenditures within the budgeted limits. Monthly financial statements provide the information for the department heads to maintain control and for the council to assure itself that expenditures are within the budgeted limits. A department head must always be able to explain any material variances from budgeted expenditure.

## **The treasurer**

Provincial legislation makes the municipal treasurer responsible for the receipt and disbursement of the corporation's money. This concept is a legalistic and limited description of the treasurer's responsibility. The progressive treasurer also provides many other services to improve the municipality's management of expenditures. These include:

- to install and operate a centralized system for the payment of accounts;
- to design, prepare and distribute the internal financial statements; and
- to advise the appointed department heads when expenditures threaten to exceed budget and point out where economies may be effected.

## **Budgetary and reporting controls**

A municipality must have an accounting system that highlights unfavourable expenditure patterns. Well-defined budgets and accurate current financial statements should be in such a form that department heads and the council can readily compare actual and budgeted expenditures.

Every municipality is required by law to prepare and adopt estimates of the amounts required during the year, but your client's budgetary system should far exceed this statutory requirement. The preparation of a good budget follows these general guidelines:

- it is based on objective data and informed opinion;
- it is prepared in advance of actual expenditure;
- expenditures are classified by department so that each appointed department head is aware of responsibilities and expenditure limits;
- each department head becomes involved in the budgeting process and agrees to those expenditure limits for which he or she is responsible; and
- expenditures which occur seasonally (e.g., road maintenance, recreation and snow clearing) are estimated by preparing a calendarized budget.

The bibliography at the end of this book gives sources for further background on municipal budgetary control.



Reporting and budgeting controls cannot be separated. A budget is only as effective as the reporting system that compares it to actual expenditures. You should concentrate as much effort on examining the effectiveness of the reporting system as you do on the budgeting system. Features that you should expect to find in the reporting system include:

- reports prepared on a periodic basis, at least monthly, made to the council and the appropriate appointed officials;
- current financial information in a form suitable for control of expenditure; and
- variations from budgeted expenditure noted and appropriate action taken.

## **Transactions subject to specific statutory control**

For many transactions, the law is explicit in restricting the ways in which money may be spent. As the municipal auditor you should assure yourself that these legislative requirements have been met. The more important transactions governed by legislation are:

### **Earmarked revenues**

Amounts raised by special rates and charges can be paid out only for specified purposes. Some major examples are:

- Board of education rates: payments of board of education requisitions are made to the board in quarterly instalments starting on March 31 (in some areas local agreements may call for more frequent payments). Provision for early payment discounts and late payment penalties are included in the legislation. Supplementary taxes are paid to the board by December 31 of the year in which they are raised.
- County and regional rates: payment is made to the county by December 20 of the year during which the revenues were raised and supplementary taxes are paid to the county by December 31. In most cases, agreements between the county and municipalities require payment by instalments during the year. Dates of payment to a regional government are established by the regional council. Both county and regional authorities are entitled to charge interest on overdue payments.

- **Area rates:** these revenues may be used to provide such services as garbage collection, fire protection and street lighting in certain areas of the municipality. They must be used in the area and for the purpose for which they were raised. A surplus at the year-end must be used to reduce the area rate levy in the following year.

## **Non-cash transactions**

These transactions are those which do not involve the actual transfer of cash but appear as expenditures in the annual estimates. The most important are:

- **Transfers to reserves:** the Ministry Of Municipal Affairs' Financial Procedures Bulletin 5, "Reserves, Reserve Funds, Allowances and Other Special Funds" makes you familiar with the nature of this type of account. It also explains the limitations on establishing and using reserves.
- **Taxes written-off:** taxes may be written-off only in accordance with the provisions of the Municipal Act.
- **Deficits:** the Municipal Act requires the council to levy for a deficit in the year following the one in which it was incurred; therefore a deficit is included in the annual estimates for the purposes of calculating the mill rate.
- **Surplus:** the Municipal Act requires that council make allowance in the annual estimates for available surplus from any previous year.

## **Contributions and grants**

A municipality makes grants to bodies only as permitted by statute. If you have any doubts about the legality of any payment you should ask the pertinent municipal officials to give you their authority for making the payment.

## **The expenditure audit**

While your audit approach should be the same as that for a business client, there are a few wrinkles to auditing municipal expenditures that you need to note. If you find there is no clear definition of responsibilities between different appointed officials – or if there are any other weaknesses in financial control – you should make a report to the council and recommend improvements in the system. Your reaction to any situation should be guided by your professional opinion in the circumstances.

The Ontario Municipal Audit Bureau develops and undertakes on behalf of ten provincial ministries a 'single audit' approach to audits of provincial transfer payments to municipalities. The Bureau's interest is primarily to ascertain whether all legal or engineering requirements have been met and whether all claimed expenses are eligible for subsidy. Its work does not form an integral part of the system of control within a municipality.

Test auditing is a valuable technique. Although municipalities have a tendency to operate on a decentralized basis, there should be no difficulty in sampling. For different populations there are different tests and different starting points for the sample size.

The expenditure patterns of most municipalities are predictable mainly due to the limitations of their budgets. This fact should make variance analysis one of your more important audit tools: an examination of variations between budget and actual expenditure should reveal any unusual patterns for the year. The budget figures to be used should be the original budget approved by council.

It is normal practice for some municipalities to provide a contingency amount in the annual budget which can then be re-allocated as determined by council and/or staff. Such transfers may distort any unusual patterns that might otherwise be discernable. You may find that your client uses commitment accounting. As a general rule, only the legal obligations of the municipality should be recorded. If goods or services have been ordered but have not been received – and title has not passed – then there is no legal obligation to pay and no expenditure should be recorded. This is the generally accepted accounting principle for year end cut off.



# *Capital*

## **Capital in the municipal context**

The word “capital” has a specific meaning in the municipal context: it is used to describe the transactions of the capital fund, including both long term (i.e., capital) expenditure and long-term financing (see page 14). All long-term expenditure, regardless of how it is financed, and all the money that a municipality obtains through long-term financing, is reported in its capital fund. Examples of capital financing include: borrowing through debenture issues, contributions from other governments, contributions from the revenue fund for capital expenditure, and private gifts. The Municipal Financial Reporting Handbook and its supporting Interpretation Bulletin provides guidance on the reporting and accounting for these transactions.

Major capital projects, by their nature, require a long time to plan, finance and complete. They frequently extend beyond the lifetime of a single elected council and their cost can affect profoundly the financial position of a municipality. For this reason, many restrictions and preliminary administrative procedures have been written into the legislation. When you evaluate the propriety of capital transactions, you must have a detailed knowledge of the pertinent legal restrictions and required administrative procedures.

The provincial government provides substantial capital assistance to municipalities in order to encourage a high standard of service to their inhabitants. You should be familiar with these assistance programs, both in order to perform an effective audit, and also to ensure your client is obtaining the maximum financial assistance available to it. Remember the publication entitled “Provincial Financial Assistance to Municipalities, Boards and Commissions” which is published annually.

In most municipalities, each capital project is regarded as unique, and is processed as a separate cost centre. You should organize your approach to the audit of capital accordingly. Refer to the Municipal Financial Reporting Handbook for appropriate accounting and disclosure requirements.

## **The capital project**

Whatever the source of financing for a capital project, there are legal requirements which must be observed in obtaining the financing, as well as desirable administrative procedures.

## **Long-term financing: minimum procedures**

The council passes a by-law to approve long-term borrowing, but the third reading of the by-law does not take place until the Ontario Municipal Board (OMB) has authorized the debenture issue. Tenders or quotations from bond dealers may be required by the municipality's procedure by-law or by custom (see page 15). If so, they are obtained before the third reading so that the actual terms of sale incorporated in the dealer's contract may be specified in the by-law. Before debentures are sold, the by-law is either validated by the OMB, or a legal counsel (who is an acknowledged authority on municipal law) provides a written opinion on its validity. The validation is printed on the back of the debenture certificates.

The OMB issues an official board Order to approve a debenture issue and other forms of long-term borrowing. This Order is signed and sealed. It sets out such details as the project cost, the amount and term of the debenture issue, and permission for temporary financing pending the sale of debentures.

Municipalities should make sure they are eligible under any grant or loan program before a capital project is begun and that the appropriate approvals are in place.

Your client could experience serious financial and legal difficulties if it fails to follow these minimum procedures when obtaining long-term financing. See Management Advisory Bulletin on "How To Borrow Long-Term". For example, the OMB is unable to approve long-term financing for a project which has already started. The municipality is then in the embarrassing position of having to finance an unapproved project from current revenues or of obtaining a private act of the Legislature to approve long-term financing.

In rare circumstances, under parts II and III of the Municipal Affairs Act, a municipality may be put under supervision where they have overspent on a capital project, or have run into other financial difficulties.

Ontario Municipal Board approval is also required with respect to the issue of short term debentures to pay floating indebtedness. Such applications are uncommon but may arise in one of two ways. A municipal council proceeding with a capital undertaking with the intention of fully financing it from the current revenues during its term of office realizes at a later date that it is unable to do so. Or, more rarely, the municipality may have to

exceed the 70 per cent borrowing limits set out in the Municipal Act. Refer to the Ontario Municipal Board publication “The Role of the Ontario Municipal Board with Respect to Undertakings Involving Long-Term Commitments by Ontario Municipalities and School Boards” for more details.

The OMB’s publication also describes control guidelines for your client’s commitment to capital. The Board considers that a municipality’s long term debt charges should not exceed 20 per cent of total revenue fund expenditures applicable to its own operations.

If legal counsel will not give a favourable opinion on a debenture by-law or if the OMB cannot validate it, a dealer may break a commitment to purchase the debenture issue. Furthermore, after a technically illegal project is begun or well advanced, a ratepayer may initiate court action to frustrate it.

Incidentally, the requirements of the Securities Act do not apply to an offering of municipal debentures to the public; so you are not required to take an active part in preparing a prospectus when your client is seeking long-term financing.

### **Long-term financing: internal procedures**

A long-term capital budget is indispensable for management purposes. This budget is prepared by the treasurer in close consultation with the appointed department heads who are responsible for actually spending the money. It shows all proposed capital expenditure, all the proposed sources of financing and the anticipated effects upon the current revenues and expenditures for at least the next five years. The long-term capital budget is reviewed and updated by the council every year.

The five-year forecast of proposed long-term borrowing – which the OMB requires annually from many municipalities – is compiled from this long-term capital budget and reported on the FIR. The inclusion of a project in the forecast does not constitute a formal application for approval of the project. The Board’s order approving the project, the cost and the debenture issue may also include the by-law imposing rates. If objections to a project are received, the OMB may hold a public hearing and may not necessarily approve the project even though the forecast was originally approved.



## **Capital expenditures: internal procedures**

In addition to the long-term capital forecast, a detailed capital budget is developed for the current year in order to provide control over capital expenditure in that period. Cost and financing records are kept for each project so that actual costs can be compared with the estimated costs and the contract terms. If at any time during a project, the actual costs are exceeding either the anticipated costs or the amount that the OMB or any government agency has authorized, the deviations should be reported. The appropriate official or the council should then take prompt corrective action, such as reapplying to the OMB for approval of any increase if necessary.

The council passes a by-law approving the project and its financing. Tenders for capital projects are called in accordance with the procedure by-law or the established practice of the municipality.

The advice of the municipal solicitor on any proposed contract should be obtained before the council signs and seals it.

An adequate amount of performance bonds or cash deposits, together with liability insurance, should be obtained from the contractor for each project.

## **Summary of documentation**

Once you become familiar with the preliminary legal requirements and internal administrative procedures relating to a capital project, you should have no difficulty in deciding on the documentary evidence you will want to examine during your audit. The documents generally available for your examination include:

- a by-law approving the project;
- a by-law approving any long-term borrowing;
- a bond dealer's contract for a debenture issue;
- an OMB Order approving any long-term borrowing;
- approval from the appropriate government department or agency of any project for which grants or loans are anticipated;
- the long-term capital budget;
- tenders for construction (if required by the procedure by-law);

- the construction or purchase contract, showing all details and terms;
- performance bonds; and
- appropriate project records showing costs and financing.

## **Capital projects subject to specific statutory controls**

In certain types of projects, the legal requirements and controls are rigorous. There are three good reasons why. First, project costs have to be assessed against certain ratepayers in an equitable way; second, provincial and federal grants may be involved in the financing of the project; and third, lack of control could result in costly mistakes.

## **Subdivision development**

Municipalities have extensive authority under the Planning Act to plan, zone, control and regulate the subdivision of land. Using this authority, a municipality both plans and controls its own development and obtains contributions from subdividers toward the cost of installing services to the subdivisions.

When a subdivision is envisaged in a municipality, there is often a wide difference of opinion about the development, its rate of progress and method of financing. The developer, who bears the financial risk, naturally wishes to have plans approved promptly and to avoid any additional financing burden. On the other hand, the local council has to consider the long-term effects of the development and the available sources of funds for installing the necessary municipal services. Rapid development on a sound financial basis can take place only if strong leadership, a sound policy base, prudent procedures and competent professional advice are present in the municipal administration.

The planning and development of land occurs under the provisions of the Planning Act, which sets out the ground rules for land use planning in Ontario, establishes how land uses may be controlled and who may control them. Although the preparation of plans and by-laws is not required under the Act, a complete program for planning, zoning, and subdivision control usually takes this form:

- i. The municipal council is responsible for the preparation and adoption of an official plan, which is a policy document setting out the municipality's views of how land should be used in the community. The plan, once it has been adopted by council, requires the approval of the

Minister of Municipal Affairs in order to come into effect. Where there is an official plan in effect, the Planning Act requires that no public works may be undertaken and no by-laws may be passed which do not conform with the plan.

- ii. While the official plan sets out the general long range policy framework for future land use, zoning by-laws are passed by councils to put those plans into effect and provide for their day-to-day administration. Unlike the official plan, the zoning by-law contains very specific and legally enforceable regulations. Any new development or construction that does not comply with a municipality's zoning by-law is not permitted and will be denied a building permit.

Once the zoning by-law has been passed, notice must be given to affected citizens and public agencies. There is an appeal period which expires 35 days after the passing of the by-laws; if there are no appeals, the by-law comes into effect as of the day of its passing. If there are appeals, these will be dealt with by the Ontario Municipal Board, which has the final determination of the by-law.

- iii. In order to subdivide and convey land in Ontario, where an interest in abutting land is being retained, approval of a plan of subdivision is required. In some cases where only one or two lots are being created, this can be accomplished by a different approval called a consent or land severance. The procedures for approval of a subdivision and a severance are similar, in that consultation with affected public agencies is required, and the approval occurs in two stages: draft approval or approval in principle with any applicable conditions, and final approval. In both cases land cannot be conveyed until final approval has been obtained.

Administered under the Planning Act, subdivision approval is given by the Minister of Municipal Affairs or by a municipality that has been delegated the Minister's approval authority.

- iv. As a condition of approval, the developer may be required to enter into a subdivision agreement with the municipality.

In this agreement, the services to be installed are set out together with details concerning related financial arrangements.

As a matter of practical administration, the agreement is often drawn up by the municipal staff. The council provides its final approval by passing a by-law.



A municipality may receive large sums of money from a subdivider under the terms of a subdivision agreement. Most of it is for capital expenditure and is held in a reserve fund until it is used (see Financial Procedures Bulletin 5 – “Reserves, Reserve Funds, Allowances and Other Special Funds”). As auditor, you should determine whether the internal control and accounting systems are adequate to ensure that subdivision development money is used for the specific purpose for which it was acquired and that excess money is returned to the subdivider.

In some cases, legislation such as the Planning Act requires that financial contributions from developers be allocated to special accounts for specific purposes (e.g., park or recreational funds), and that the auditor’s annual report should comment on the activities and position of the account. If money has been received which is to be used for general services necessitated by the subdivision of land, these services are understood to include the provision of sewage treatment facilities, community centres, parks and other indirectly related capital projects which may not be located geographically within the subdivision. Money received from a subdivider for engineering services to be provided by the municipality is treated differently from the other money paid by a subdivider; it is earmarked to meet engineering costs as they are incurred.

Your client may retain you as its financial advisor, as well as its auditor, so you should be aware of the effect of the terms of a subdivision agreement on your client’s cash position. If your client has to make major expenditures on the subdivision before it receives contributions from a subdivider, the cost of financing these expenditures will have to be met out of general tax revenues. You should also be aware that if your client fails to require a subdivider to pay the full cost of installing municipal services, the municipality will have to finance the capital cost of these services, possibly through local improvement charges.

## **Local improvements**

The Local Improvement Act authorizes municipalities to install services such as sewers, drains, water mains, streetlighting and sidewalks, and to recover the costs from benefitting landowners. These services are usually financed by issuing debentures and recovering the debt charges from landowners over a period of years. Sewers and water mains can also be supplied in a similar way under the provisions of the Municipal Act.

Local improvements entail statutory requirements concerning OMB approval, the apportionment of cost and the appealing of assessments:

- i. For capital projects under the Local Improvement Act, approval of the OMB is obtained for the project if it was initiated by the municipal council, or if it was initiated by a petition of landowners and there were objections to it. A statement which apportions the cost of the project among the landowners affected, in accordance with the Local Improvement Act is prepared. These landowners have the right to appeal the apportionment to the municipality's court of revision when it meets to review the statement of the cost of the work. The court of revision decision can be appealed to the OMB.
- ii. For sewer and water projects under the Municipal Act, OMB approval is required for the construction of the project and for the by-law which imposes a special charge on the affected landowners (or occupants) in order to recover the cost of the project. There are also other special charges, such as parking and garbage, which require OMB approval. Objections are heard by the OMB before it approves the by-law, but there is no appeal of the assessment.

The documents you may expect to find available for examination in the case of a project carried out under the Local Improvement Act include:

- the original by-law authorizing the project with the OMB's required approval;
- a statement of costs and apportionment of costs as approved or amended by the court of revision;
- the local improvement assessment roll as amended by the court of revision; and
- the council's minutes adopting the local improvement assessment roll.

in the case of projects under the Municipal Act:

- the by-law authorizing the project and, in some cases, imposing a special rate to recover its cost, with the OMB's required approval. Most project costs are recovered through the mill rate on all assessable property.

## **Projects under the Drainage Act**

The provincial government subsidizes the cost of draining farm land, if the drainage project is carried out under the provisions of the Drainage Act. There are statutory requirements for apportioning costs, appealing assessments, and claiming a grant:

- Projects are initiated by a petition from landowners. An engineer is then appointed to report on the drainage requirements of the area, the cost of meeting them, and the apportionment of costs to each benefitting landowner.
- Landowners affected must be notified of the proposed project, so that they may be heard at a meeting where the project is considered. They may appeal the technical requirements to a referee, and their assessed portion of the estimated cost to the municipality's court of revision.
- The municipal council passes a by-law authorizing the drainage project and the basis of assessing costs against the benefitting landowners.

The documents you may expect to examine include:

- the engineer's report showing the estimated costs and their apportionment;
- the minutes of the court of revision;
- the municipal by-law and special assessment roll; and
- the correspondence from the Ministry of Agriculture and Food concerning the grant.

## **Ontario Water Resources Act**

The Ontario Water Resources Act is administered by the Ministry of the Environment (MOE). The MOE is charged with controlling the standard of – and in some cases providing – water supply and sewage treatment services in Ontario.

Where a municipality carries out its own sewage treatment or water supply project, the approval of the MOE is required. Where the MOE carries out the project, the municipality is relieved of the detailed administration and accounting relating to it. The municipality will, however, usually have debentures outstanding relating to the project. Payments made to the



MOE will be a combination of debenture charges and operating costs. There will be a surplus/deficit position with the MOE which must be disclosed in the notes to the financial statements.

## **PRIDE**

The Program for Renewal, Improvement, Development and Economic Revitalization (PRIDE) changes the character and appearance of important parts of a municipality. The program is designed to assist municipalities to upgrade and improve older sections of the community. The statutory requirements and administrative procedures affecting these projects can be onerous because municipal and provincial governments as well as private developers may be involved. In order that a PRIDE program can proceed in an orderly and economic manner, a high degree of planning and organization is necessary. The use of budgets and cash forecasts is essential for good program management. Full details of costs and financing should be reflected for each phase of the project.

The documents you may expect to examine include:

- an approved official plan;
- the engineer's report showing the estimated costs;
- the property maintenance and occupancy standards by-law; and
- the correspondence from the Ministry of Municipal Affairs Community Renewal Branch concerning the grant.

## **The capital project in process**

You might find it helpful if we reviewed a "typical" project through its stages of construction and financing. Bear in mind that not all the steps outlined here are pertinent to all capital projects. For example, where vehicles are being purchased or where a road widening is not being financed by debentures, some of these steps do not apply.

## **Temporary capital financing**

Usually, the initial stages of a project are financed by temporary borrowing. Money may not be borrowed on a temporary basis until after the council has passed a by-law authorizing the project. Banks generally require a certified copy of this by-law with an application for a temporary loan, sometimes with a copy of the OMB order for the project.

Temporary borrowing for capital purposes is limited by statute to the amounts specified in the OMB order, plus any additional amounts the OMB may approve. Temporary funds obtained for capital projects may be used only for those projects and for no other purpose; they are repaid when the project is permanently financed – either from the proceeds of the debenture issue, or from the relevant government grant, or from the revenue fund.

## **Contract payments**

All progress payments are made in accordance with the contract authorized by the council. The project is inspected by the municipal engineer (or by a consulting engineer or architect) who then certifies the payment request from the contractor before it is paid. Any payments which are for extras, or in excess of the contract agreed to by council, are approved by the council before payment is made. Payment of the holdback after the completion of the project is also approved by the council, as this payment can release the contractor from further obligations.

## **Grants**

As an auditor you may be involved in the procedure for claiming grant payments from different ministries of the provincial government. Procedures for paying grants vary from program to program, and the accounting criteria by which provincial ministries distinguish between capital and non-capital projects may not coincide with your client's accounting principles.

It is possible to confirm directly with the appropriate provincial government ministry the amount of grants paid to a municipality during the year. The address of the proper government office to write to for each grant is in the publication *Provincial Financial Assistance to Municipalities, Boards and Commissions*.

## **Control of debentures and coupons**

Rigorous control should be maintained over debentures and coupons. Once debentures have been signed by the head of the council and the treasurer and have been sealed, care must be taken during their delivery to the purchaser or broker. If they are sold “over the counter”, serially numbered receipts are used to provide further control.

A bank is authorized to handle cashing of coupons, and when debentures mature, they are also surrendered to the authorized bank for payment. The debenture register is used by the municipal treasurer to maintain accounting control over cashed coupons and debentures. A system should exist at the bank to cancel cashed coupons and matured debentures before they are delivered to the municipality.

When debentures are issued by one municipality and the liability is assumed by another, the basis of assumption is established by an OMB order, by legislation, or by an agreement between the two municipalities concerned.

### **Excess debenture proceeds**

You should know the legal limitations on the use of debenture proceeds which are in excess of the cost of the project for which they were issued. Any excess funds realized from a sale of debentures must be shown as a restricted asset and may be applied only:

- to redeem one or more debentures of the latest maturity, where the amount of the excess is sufficient and the debentures are so redeemable;
- to the annual payments of principal and interest on the debentures until the excess has all been applied;
- to buy back the debentures; or
- with the approval of the OMB, to meet other capital expenditure which would otherwise have been met from taxation upon the same class of ratepayers as bear the debt charges on the debenture issue which gave rise to the excess proceeds.

### **Contributions to capital expenditure**

A council by-law should be available for your examination to support a contribution to capital expenditure from the revenue fund, from reserve funds, or from reserves.

### **Disclosing material commitments**

You should realize the practical problem involved in providing full and clear disclosure of all material commitments at the balance sheet date. A long time may elapse during the planning of capital projects, the obtaining of the council's agreement, the completion of the preliminary legal steps and the obtaining of permanent financing. As a result, there may be a lot of con-



fusion about just when your client is actually committed to make capital expenditures, as well as the actual amount of its contractual obligations. Nevertheless, as recommended in the Municipal Financial Reporting Handbook, all contractual obligations and commitments for capital expenditure that are abnormally large in relation to the usual operations of the municipality should be reported in a note to the financial statements. The note should also disclose the proposed financing of the projects, so that it indicates clearly the effect debt will have on the financial position or future operations of the municipality.

## **The capital project after completion**

Fixed assets are not reported on a municipality's balance sheet, and the accounting records related to fixed assets may be minimal. Nevertheless, there should be extensive management records related to fixed assets since the control and safeguarding of assets is still a management responsibility whether or not they are reported. These records provide for the efficient maintenance, insurance and use of assets, as well as adequate safeguards to prevent their unauthorized disposal or loss. Financial Procedures Bulletin 8 – "Fixed Asset Recordkeeping" provides guidance for municipalities.

Where you evaluate internal control, you may want to examine the system of recordkeeping for fixed assets, and also to advise your client concerning the control over fixed assets.

The sale, disposal or abandonment of assets should be authorized by the council. Procedures vary, depending upon the municipality's procedure by-law; however, it is often considered worth the cost to have an independent appraiser value an asset before sale. Or tenders may be called for the sale of assets by the municipality.

The Municipal Act restricts the use of proceeds from the sale of assets on which there is still debt outstanding. The restrictions are the same as those applied to the use of excess debenture proceeds (see page 65). If the asset is free of debenture debt, the use of the proceeds is at the discretion of the council. It is good general practice for a municipality to regard the disposal of an asset as a source of capital funds to be used to finance further capital expenditure.

# Other Areas

Temporary borrowing, fidelity insurance, and reserve funds and other special funds have unusual statutory requirements.

## **Temporary borrowing**

There are stringent statutory limitations on the use of temporary borrowing by a municipality. Every loan made to a municipality is authorized by a by-law and secured by a promissory note or banker's acceptance. A municipality has no authority to incur a bank overdraft or any other unsecured loan.

Loans are made for current operations or for capital purposes. Loans to finance current municipal operations are limited to 70 per cent of estimated uncollected revenues for the year. You should be aware that loans from reserve funds are included in the calculation of the borrowing limits. As mentioned previously, if it is necessary to exceed this limit, the approval of the OMB must be obtained. "Estimated uncollected revenues" refers to the anticipated income of the revenue fund from all sources, including taxes for the year and revenue contributions from other governments.

At the same time as the OMB gives a municipality permission to undertake long-term borrowing, it approves temporary financing up to the cost of the project (see page 55). Temporary loans for current purposes are repaid out of the current or preceding year's revenues when they are received. Proceeds from the sale of debentures must be used to repay temporary loans for capital purposes. These terms are written into a standard form of by-law which is provided by banks. A temporary loan is a liability of the fund indicated in the authorizing by-law. For example, if a by-law is passed in which a capital fund loan is inadvertently authorized on a revenue fund by-law, it is a liability of the revenue fund and is reported as such. This type of mistake should be avoided because it can result in restrictions to future borrowing; it also confuses the source of funds from which a loan is to be repaid.

In order to determine adherence to statutory limitations you should know the balance of each capital loan, and the balance of the temporary loans for current operations. You will also need to ensure the separation of capital from current loans in the financial statements. Banks provide these details on a standard bank confirmation form.

Few local boards have the legal authority to incur their own debt; in most cases the municipality must borrow on their behalf. You should ask the appropriate official for the authority for any direct loans to a local board.

### **Fidelity insurance**

The law requires a municipality to bond its treasurer, deputy treasurer, collector and any other officer designated by the council, and the council to review the bond coverage no later than February 15 of each year.

Encourage the council to provide blanket insurance in adequate amounts on all its employees and additional insurance for positions of greater responsibility.

### **Reserve funds and other special funds**

Reserve funds are resources segregated to pay for costs to be incurred at a future date. Other special funds include trust funds, pension funds and sinking funds. Full details of these funds – plus the statutory limitations for establishing investing and spending these funds – are to be found in Financial Procedures Bulletin 5: “Reserves, Reserve Funds, Allowances and Other Special Funds.” You should review this information before you start this part of your audit.

The law requires that earnings of a fund’s assets become the property of the fund and that they must be used for the same purpose as the fund. The legislation and by-laws affecting each fund indicates where special features of control may be necessary.



# *Postscript*

If you have found this book interesting, stimulating and helpful, it has served its purpose. It makes no pretence at being the last word on municipal auditing and we hope you will forgive any omissions you may have found.

Once you have explored the complexities of municipal auditing you will want to obtain a greater depth of theoretical understanding than is possible in a book of this nature: that is why we have included a fairly broad bibliography. At the same time, there are problems about auditing a number of other areas of local government, each of which would require a book of its own to cover adequately – for example, local boards. In the meantime, you will have to do some digging for yourself. Staff of our Ministry are only too glad to answer any questions you may have on local government.

Local government and public accounting are two facets of modern life that are changing with startling rapidity. So use this book as a guide only – and check on the latest legislation and The Institute of Chartered Accountants of Ontario standards before you proceed to audit a municipal client.

Municipal operations involve vast sums of money. Their planning and financing can have a profound effect not only on the present municipal inhabitants but also those of tomorrow. So your audit should surely involve much more than a detailed check of approvals, initials and signatures; take every opportunity to step back and consider how the current actions of your client will affect the future. By counselling your client towards sound and progressive policies you could be providing your greatest audit service.

Appeal may be made to	Within the following period	By these eligible parties	For these reasons
ASSESSMENT COMMISSIONER	Between the delivery of the assessment notices to the ratepayers and the assessment roll to the municipal clerk – at least 14 days	Any person	Any information on the assessment roll
ASSESSMENT REVIEW BOARD	21 days after the delivery of the assessment roll to the municipal clerk	Any person including a municipality or a school board	(a) Any error or omission in regard to himself (b) That the assessment of his or any other person is too high or too low
ONTARIO MUNICIPAL BOARD	21 days after the mailing of the notice of the decision of the Assessment Review Board	The municipal corporation, a school board, the assessment commissioner, any person assessed and any person who has filed a complaint with the Assessment Review Court in that year	The decision of the Assessment Review Board

**NOTE:** There is the same timetable for people assessed subsequent to the closing of the assessment roll. Any person involved should review the appropriate legislation.

**AN EXAMPLE OF AN ENGAGEMENT LETTER    APPENDIX “B”**

Head of Council and Council  
The Township of Ontario  
Ontario, Ontario

Dear

As a result of our conversation on (date), we are summarizing our understanding of the terms of our engagement as auditors of the Municipality of Ontario for the financial year ending December 31, 198X.

As statutory auditors, we are required under the Municipal Act to examine the annual financial statements prepared by the municipality for presentation to the members of council, inhabitants and ratepayers, and to express our opinion thereon. In forming our opinion we will perform such tests as we consider necessary to satisfy ourselves that:

- the underlying accounting records are reliable and sufficient as a basis for the preparation of the annual financial statements, and
- the financial information is adequately disclosed in the financial statements.

The nature and extent of our tests will vary according to our assessment of the system of internal control.

The report will cover the activities of all committees of council and the following consolidated local boards, municipal enterprises, utilities and joint local boards under its control:

- (list)

and the following non-consolidated entities for which the municipality is responsible for the preparation of the annual financial statements:

- (list)

Our audit will be planned and conducted in accordance with generally accepted auditing standards in Canada to enable us to express our opinion on the financial statements. Because an audit involves testing, not detailed checking, and because of other inherent limitations of an audit and of any system of internal control, there is an unavoidable risk that defalcations and other irregularities may remain undiscovered. Any irregularities which we detect will be reported to you.



The responsibility for the preparation of financial statements, including adequate disclosure in accordance with generally accepted accounting principles established in the Municipal Financial Reporting Handbook consistently applied, is that of the management. This includes the maintenance of adequate accounting records and internal controls, the selection and application of appropriate accounting policies, and the safeguarding of the assets of the municipality. As part of our audit process, we will request from you written confirmation concerning representations made to us in connection with the audit that the assets and liabilities, and revenues and expenditures are correctly and fully disclosed.

Our examination will include a study and review of your municipality's system of internal accounting control. The purpose of the study and review of the internal accounting control system is to determine the scope of our audit engagement and is not performed to detect all errors in the processing of information. On the basis of our study and review of the internal accounting control system, we will make suggestions, where appropriate, for improving the system. If we should discover material weaknesses in the design or the execution of the system, we will disclose these weaknesses to you in writing.

In addition we will review the Financial Information Return for the municipality and report on certain schedules required by the Ministry of Municipal Affairs.

Also, we will carry out such bookkeeping as we find necessary, prepare the financial statements and perform any other services as arranged with the council.

An estimate of our fees will be as follows:

– audit services	\$ _____
– bookkeeping services	\$ _____
– preparation of financial statements and reports	\$ _____
– any other services	\$ _____

We would appreciate your reviewing the contents of this letter and, if it is in accordance with your understanding of the arrangements, returning one signed copy for our records.

Yours truly,

\_\_\_\_\_  
Auditor

We agree with your understanding of the terms of your engagement as set out in this letter.

\_\_\_\_\_  
Municipality's name

\_\_\_\_\_  
Signature – Head of Council or Chairman of Audit Committee

\_\_\_\_\_  
Date

(Municipality’s Letterhead)

In connection with your examination of the (identification of the financial statements) of (municipality) and any boards or commissions as of (date) and for the (period of examination) for the purpose of expressing an opinion as to whether the (consolidated) financial statements present fairly the financial position of (name of municipality) and the results of its operations in conformity with generally accepted accounting principles, we confirm, to the best of our knowledge and belief, the following representations made to you during your examination.

1. We are responsible for the fair presentation in the (consolidated) financial statements of the financial position, and the results of its operations in conformity with generally accepted accounting principles, consistent with the preceding year.
2. We have made available to you all:
  - a. Financial records and data; and
  - b. Minutes of the meetings of the council and summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no:
  - a. Irregularities involving management or employees who have a significant role in the system of internal accounting control;
  - b. Irregularities involving other employees that could have a material effect on the financial statements; and
  - c. Communications from regulatory agencies concerning non-compliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.
4. All inventories were priced at cost.
5. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
6. The following have been properly recorded or disclosed in the financial statements:
  - a. Related party transactions and related amounts receivable and payable, including taxes, purchases, loans, transfers, leasing arrangements, and guarantees;
  - b. Investments; and
  - c. Agreements to repurchase assets previously sold.



7. There are no:
  - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements; and
  - b. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed.
8. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed.
9. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
10. Provision, when material, has been made to reduce excess or obsolete inventories to their estimated net realizable value.
11. The corporation has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets.
12. We have complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of noncompliance.
13. No events have occurred subsequent to the balance sheet date that would require adjustments to, or disclosure in, the financial statements.

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Signature – Chief Administrative Officer or Treasurer

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Date (Date of Auditor's Report)

MINISTRY OF MUNICIPAL AFFAIRS

\_\_\_\_\_  
(Name of Municipality)

ANNUAL AUDIT QUESTIONNAIRE  
FOR THE YEAR ENDED DECEMBER 31, 19 \_\_\_\_\_

To be completed by the municipal auditor and submitted directly to the appropriate field office by April 30th pursuant to the provisions of Part II, Section 3 of the Municipal Affairs Act, Chapter 303 of the Revised Statutes of Ontario, 1980.

(Applies to the municipality and all audited local boards)

TO BE COMPLETED BY THE MUNICIPAL AUDITOR

1. Of the total hours charged for the year under review, approximately how much time was spent in each of the following areas:

	Approximate Percentage of <u>Time charged</u>
(a) Bookkeeping and accounting services	_____ %
(b) Budgeting and financial planning	_____ %
(c) Preparation of Financial Return and Financial Information Return	_____ %
(d) Auditing	_____ %
(e) Other	_____ %
Total for year under review	100% _____

Circle  
Yes or No

2. During the course of your audit, were there any matters that you identified that you have reported to or intend to report to your client, either in writing or verbally?

Yes      No

If Yes, please state what they are.

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.



Circle  
Yes or No

3. Did you submit a management letter for the year prior to the year under review?

Yes      No

(Not applicable if answer to 3. is No)

4. Did you discuss this management letter with?

(a) the Council \_\_\_\_\_

Yes      No

(b) the Treasurer \_\_\_\_\_

Yes      No

(c) Other (Please specify) \_\_\_\_\_

Yes      No

Have all matters been resolved to your satisfaction?

Yes      No

If No, please comment

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5. (a) Does your firm have the audit responsibility for any joint local board where this municipality is a participating member?

Yes      No

If Yes, (i) show name of joint local board(s)

Circle  
Yes or No

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(ii) show name of municipality with which local board's financial statement was consolidated

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(iii) show reason if financial statement not consolidated

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(b) Did you send copies of the audited statements to the councils of all participating municipalities and to the province regardless of whether the statement was consolidated or not?

Yes      No

6. (a) Was fidelity bond coverage taken out during the year under review as required by section 94 of the Municipal Act?

Yes      No

If Yes, Type of Bond \_\_\_\_\_

Amount this Year    \$ \_\_\_\_\_

last Year    \$ \_\_\_\_\_

(b) Was the fidelity bond produced to council as required by Section 94(3)?

Yes      No

7. Did you review this questionnaire with the Treasurer?

Yes      No

NAME AND ADDRESS OF AUDIT FIRM

\_\_\_\_\_  
\_\_\_\_\_

LICENCE NO. \_\_\_\_\_

Signature of Firm \_\_\_\_\_

Name of Partner in Charge \_\_\_\_\_



# *Bibliography*

This listing of books and periodicals is by no means exhaustive; nor does it consist of required reading for municipal auditors. Some of the titles you may want to have in your office for reading and frequent reference, others you may never read unless you have a particular interest in a special aspect of municipal practice.

Rather than give you a massive listing of books and papers – which might look impressive but is often totally unhelpful – we have carefully selected those titles we are sure will be of most use to you. We have added our own subjective comments to help you decide whether or not you want to purchase or borrow a particular book or periodical. Those publications produced by the Ministry are available at a nominal cost. It may well be that we have missed a useful title or two. If you come across a book or paper which you feel would be of help to other municipal auditors, please let us know so that we can pass on the information. The Merrilees Library Catalogue from The Institute of Chartered Accountants of Ontario will also provide you with general audit material.

## **Accounting**

1. Ontario, Ministry of Municipal Affairs, Municipal Management Practices Branch.

Municipal Financial Reporting Handbook and its supporting Interpretation Bulletin, Toronto.

A loose-leaf binder, updated annually, which contains the accounting principles and disclosure requirements for Ontario municipalities. Expanded explanations are in the supporting Interpretation Bulletin. Also included at the back of this binder is a publication entitled “Financial Disclosure to the Public – A Code for Municipalities in Ontario – 1984”. This publication gives guidance on minimum reporting requirements for municipalities to their ratepayers and inhabitants.

2. Municipal Finance Officers Association of the United States and Canada. Government Accounting, Auditing and Financial Reporting. Chicago: 1980. 221 pages

An authoritative reference describing North American practice with some applicability to practice in Ontario.

3. Ontario, Ministry of Municipal Affairs, Municipal Management Practices Branch  
BACPAC Basic Accounting Package. Toronto: 1982. 2 volumes.

The Basic Accounting Package, known as BACPAC, is a manual of basic bookkeeping, accounting, and management procedures, and includes a model chart of accounts. The manual includes chapters on bookkeeping principles – debits and credits, designs for books of original entry and ledgers, in-year and end-of-year financial reporting, and management control procedures.

### Financial Procedures Bulletin Series

- F.1 Cash Management in Municipalities
- F.2 Bank Reconciliation Procedures for Municipalities
- F.3 Municipal Investments
- F.4 Zero-Base Budgeting
- F.5 Reserves, Reserve Funds, Allowances and Other Special Funds
- F.6 Property Taxation – Billing and Collection
- F.7 Calendarized Budgets
- F.8 Fixed Asset Record Keeping

These bulletins provide guidelines, and where appropriate, legislative references for various specific topics.

### Management Advisory Publications

- Understanding Your Financial Statements
- Duties of the Municipal Treasurer
- Sick Leave Credits - Plans Under the Municipal Act

Management Advisory Publications are more extensive discussions on specific topics.

4. Beedle, A. Accounting for Local Government in Canada: The State of the Art. Canadian General Accountants Research Foundation, 1981. 273 pages.

This book describes the state of the art in local government today, and also discusses the background to some of the peculiarities of local government accounting.

## Auditing

1. The Canadian Institute of Chartered Accountants Study Group on Audit Techniques.  
Confirmation of Accounts Receivable. 1981. 52 pages  
Confirmation of Accounts Payable. 1981. 38 pages  
Internal Control and Procedural Audit Tests. 1968. 38 pages  
Internal Control in the Small Business. 1967. 31 pages  
Materiality in Auditing. 1974. 22 pages  
Audit of Inventories. 1986. 96 pages  
Audit Strategy and Reliance on Internal Control. 1984. 64 pages  
The First Audit Engagement, Second Edition. 1984. 64 pages  
Good Working Papers. 1980. 64 pages  
Audit of a Small Business. 1988.

Well-researched technical studies containing many ideas that are applicable to municipal auditing and that have been accepted as good general practice. Available from the CICA offices in Toronto.

2. Ontario, Ministry of Municipal Affairs, Municipal Management Practices Branch Management Advisory Publications  
The Municipal Audit – I: Responsibility/Communication  
The Municipal Audit – II: Other Responsibilities

These publications are for the municipal treasurer and give an idea of what is involved in an audit.

3. AICPA Audits of State and Local Governments. 1986. 291 pages.

There are some relevant concepts in this text, however, watch for the differences between Canadian and American practices.

4. The Role of Auditing in Canadian Municipal Administration. Canadian Comprehensive Auditing Foundation, Ottawa: 1983. 144 pages.

The major objective of the study was to determine the extent to which comprehensive auditing can be a useful concept in improving accountability and value for money at the municipal level. There is useful information on current auditing in municipalities and some interesting examples of comprehensive auditing presently done.



5. Rousmaniere, Peter F. Local Government Auditing: A Manual for Public Officials. Council on Municipal Performance, New York: 1979.

Much of this text is applicable to Canadian practice. For example, the basics of financial and compliance auditing, the management letter, performance audits, and managing the audit process.

6. CICA, Report of the Commission to Study the Public's Expectations of Audits, June 1988, Executive Summary, 22 pages; Report, 167 pages.

The Commission's mandate was to study the public's expectations of audits. Although the Commission did not consider in any depth governments or government-controlled enterprises, you will find their recommendations at least as applicable.

## **Budgeting**

1. Ontario, Ministry of Municipal Affairs, Municipal Management Practices Branch

Management Advisory Publication

Municipal Operating Budgets

## **Finance**

1. Canadian Public Administration

A quarterly journal reflecting the scholarly research of university teachers in public administration, and the practical experience of senior civil servants. Most issues contain at least one article which is relevant to local government finance or administration. Available from The Institute of Public Administration of Canada, 897 Bay Street, Toronto, Ontario, M5S 1Z7.

2. Canadian Tax Journal

A bi-monthly journal which sometimes contains excellent articles on local government finance, particularly in the areas of assessment and taxation. Available from the Canadian Tax Foundation, 130 Adelaide St. West, Toronto, Ontario, M5H 3P5.

3. Ontario, The Ontario Committee on Taxation, (The Smith Report) 1967. Toronto: Queen's Printer, 1967. 3 volumes: 343 pages, 549 pages and 473 pages.

Volume II contains the best available description of local government taxation and finance in Ontario. Some parts are already dated by changes since publication, but it still contains a great deal of well-written information based on reliable, detailed research.

4. White Committee, 1968. The Report of the Select Committee of the Legislature on the Report of the Ontario Committee on Taxation.

A comprehensive evaluation of the recommendation of the Smith Committee Report.

5. Blair Commission. The Report of the Commission on the Reform of Property Taxation in Ontario.

An analysis of property taxation in Ontario. It provides useful background material for those wishing to obtain an in-depth knowledge of the system of property taxation in Ontario.

6. Ontario, Ministry of Municipal Affairs, Municipal Management Practices Branch

#### Management Advisory Publications

- Performance Measurement in Municipalities
- Managing Capital Spending
- How To Borrow Long-Term
- Joint Services – Five Case Studies

#### Bulletin Series

No.50 Issues in Capital Decision-Making

No.54 The Municipal Tax Sales Act, 1984

7. Ontario, Ministry of Municipal Affairs, Municipal Finance Branch  
Local Government Finance in Ontario, Toronto: annually. 150 pages.

The publication is based on the Financial Information Returns with the data following the fund basis. It provides a summary of the activities of local government as a whole and also provides some interesting statistical information by municipality.

8. Richmond, Dale. Guidelines for the Management of Debt. Municipality of Metropolitan Toronto, Chief Administrative Officer's Department. 1978.

## General

### 1. The Municipal World

A monthly journal which contains up-to-date information on the activities of municipal associations, changes in legislation and practices that affect municipalities, the changing provincial – municipal relationship, and reflections on current government policies. Write: The Municipal World Ltd., Box 399, St. Thomas, Ontario, N5P 3V3.

2. Ontario, Ministry of Municipal Affairs, Municipal Directory, Toronto: annually.

A listing of municipalities by regions, counties or districts with the municipality's address, telephone number, households, area in hectares, population and the name of each head of council (and reeve), chief administrative officer, clerk, treasurer, engineer or road/works superintendent and director, planning (recreation). Names, addresses and telephone numbers of other Ministries are also included as are many other areas of interest such as municipal associations in Ontario.

3. Ontario, Ministry of Municipal Affairs, Provincial Assistance to Municipalities, Boards and Commissions. Toronto: annually.

A publication which provides information about the major active provincial grant programs.

4. Ontario, Ministry of Municipal Affairs. Summary of Legislation Affecting Municipalities. Toronto: annually.

Supplied at no charge to municipal auditors when published.

5. Ontario, The Ontario Gazette. Toronto: Queen's Printer, weekly.

Contains information about regulations, tax sales, royal assent to bills, and proclamation of acts in Ontario.

6. Ontario, Ministry of Municipal Affairs, Municipal Management Practices Branch  
Municipal Councillor's Manual. 1988. 90 pages.

A readable, concise introduction to the organization and accountability pattern in Ontario municipalities, written from the viewpoint of a newly elected member of the council.

#### Management Advisory Publications

- Developing a Municipal Code
- Microcomputers in Small Municipalities: A Guide
- Microcomputers in Small Municipalities: A Workbook
- Microcomputers in Small Municipalities: A Catalogue
- Microcomputers in Larger Municipalities: A Catalogue
- Directory of Municipal Computers and Applications In Ontario Municipalities

These are only some of the Management Advisory Publications which are available.

#### Bulletin Series

No.7 Drafting Municipal By-laws

No.9 The Municipality and the Law

No.11 Procedure By-law

No.49 The Municipal Conflict of Interest Act

These are only four in a series of bulletins. This series is being added to continuously, so you may wish to inquire about an updated list periodically. Most of the other bulletins are general administrative matters which would apply to most organizations, whether they be private or public.



7. Tindal, C.R. *You and Your Local Government*. Ontario Municipal Management Development Board, Toronto: 1988.

This book describes the nature and importance of local government in Ontario.

8. Tindal, C.R. and S. Nobes Tindal. *Local Government in Canada*. McGraw-Hill Ryerson, Toronto: 1984.
9. Rogers, I.M., Q.C. *Municipal Councillors' Handbook*. The Carswell Company Limited, Toronto: 1982. 135 pages.

This book is essentially a short course in municipal law and administration written from the standpoint of the councillor.

## **Law**

1. MacTavish, L. R. *The Ontario Statute Citator*.

A reliable, time-saving updating service to the Revised Statutes of Ontario. It incorporates all legislation once it has become law and is published a minimum of four times a year. Write: Canada Law Book Limited, 204 Edward Street, Aurora, Ontario, L4G 3S9.

There is also a weekly service which keeps subscribers up to date on the progress and content of all government Bills as they pass through their various stages in the Ontario Legislature, and all proclamation of Acts that have already received Royal Assent.

2. Ontario, *Revised Statutes of Ontario 1980*. Toronto: Queen's Printer.

RSO contain the consolidation of the public general acts of the legislature of Ontario. Next edition will be updated to August 1, 1990. Annual Statutes of Ontario contain the Public and Private Acts passed at each session.

3. Rogers, I. M. *The Law of Canadian Municipal Corporations*. The Carswell Company Limited, Toronto: 1971. 2 volumes.

The basic text on current municipal law. Updated by regular supplements. Comprehensive treatment of the Municipal Act and related statutes and their interpretation by the courts.

## Statutes

Assessment Act  
Assessment Review Court Act  
Business Corporations Act  
Cemeteries Act  
Community Recreation Centres Act  
Drainage Act  
Highway Traffic Act  
Local Improvement Act  
Municipal Act  
Municipal Affairs Act  
Municipal Conflict of Interest Act 1983  
Ontario Municipal Board Act  
Ontario Municipal Employees Retirement System Act  
Ontario Municipal Improvement Corporation Act  
Ontario Water Resources Act  
Planning Act  
Power Corporation Act  
Public Libraries Act  
Public Parks Act  
Public Transportation and Highway Improvement Act  
Public Utilities Act  
Tile Drainage Act

These are the statutes which you most likely need to have available for day-to-day use. Others, such as private acts and statutes which apply only to a specific municipality or region, are not included in this list. There are also other statutes which may affect municipalities which are not listed here due to their limited applicability to financial matters. Legislation is also being constantly amended so the Ontario Statute Citator is an invaluable reference.

**Note:** All statutes and publications of the Ontario Government are available through the Ontario Government Book Store, 880 Bay Street, Toronto M7A 1N8, Ontario. Mastercard and Visa accepted. Cheques and money orders payable to the Treasurer of Ontario. Prepayment is required.

## FIELD SERVICES BRANCH – FIELD OFFICES

For more information on any specific municipal accounting or auditing problems, write or call any of the Field Offices of the Municipal Operations Division. They are located at these addresses.

### **CAMBRIDGE**

150 Main Street  
Cambridge (Ontario)  
N1R 6P9  
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N1H 4E9  
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Name \_\_\_\_\_ Title \_\_\_\_\_

Municipality \_\_\_\_\_





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## NOTES







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